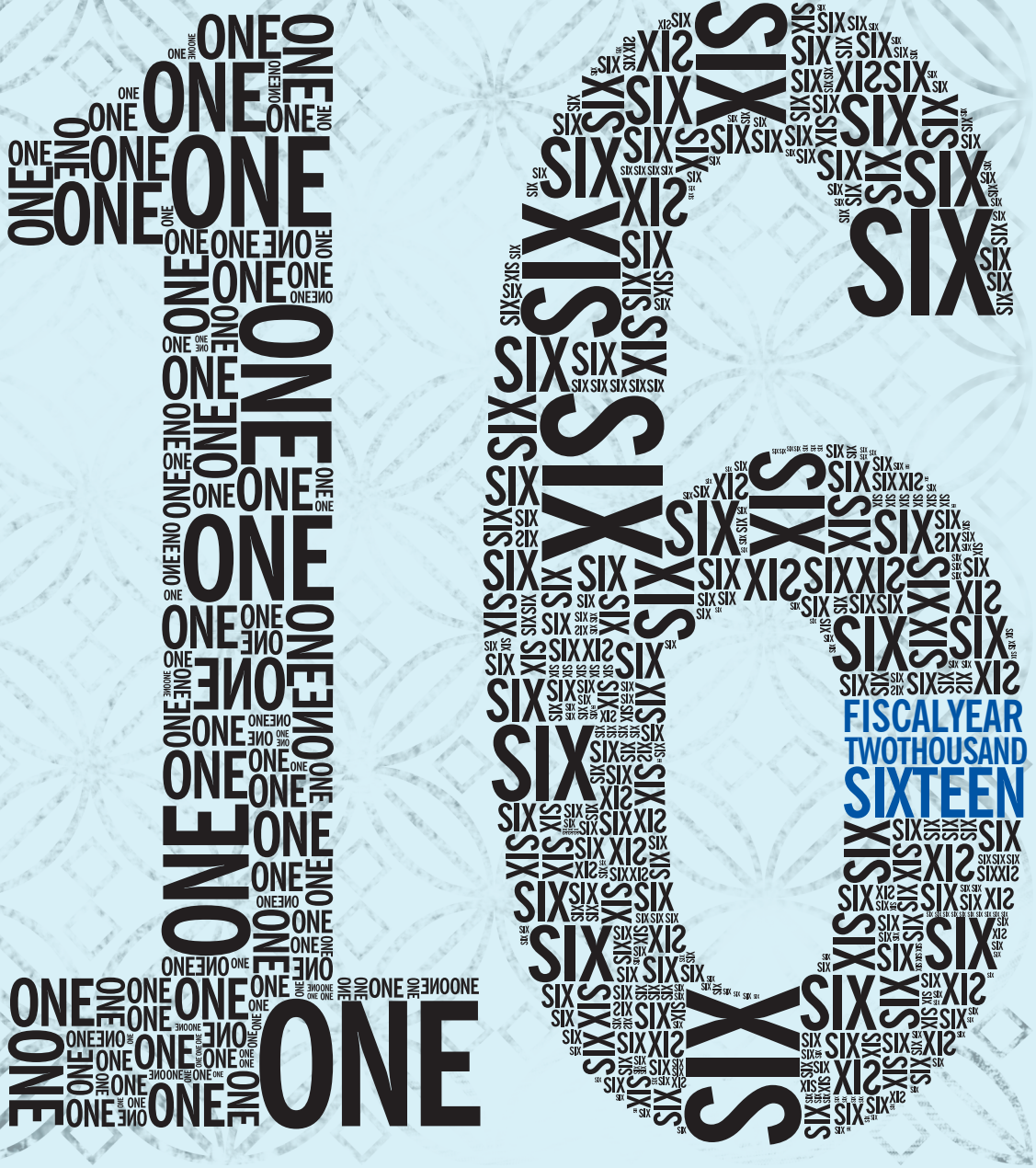
City of Highland Village, Texas

Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2016



CITY OF
HIGHLAND VILLAGE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2016

Prepared by:

The Finance Department

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CITY OF HIGHLAND VILLAGE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

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INTRODUCTORY SECTION

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FINANCE
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Highland Village, TX 75077
972-899-5089 F 972-899-5100
www.highlandvillage.org

March 27, 2017

Honorable Mayor, City Council
City of Highland Village
Highland Village, Texas

The Finance Department of the City of Highland Village is pleased to submit the Comprehensive Annual Financial Report of the City of Highland Village, Texas, for the fiscal year ended September 30, 2016.

The report is published to provide the City Council, management staff, our citizens and other interested parties with detailed information concerning the financial condition and performance of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Highland Village. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The financial statements included in this report were prepared in accordance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB), the National Council on Governmental Accounting (NCGA) and the American Institute of Certified Public Accountants (AICPA). To demonstrate further public accountability, the independent accounting firm of Certified Public Accountants, Pattillo, Brown & Hill, L.L.P. whose report is included herein, has audited the City's financial statements.

Pattillo, Brown & Hill, L.L.P., Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Highland Village's financial statements for the year ended September 30, 2016. The independent auditor's report is located at the front of the financial section of this report.

In addition, a Management's Discussion and Analysis (MD&A) section, immediately following the independent auditor's report includes a narrative introduction, overview, and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Highland Village, incorporated in 1963, is located in the southeastern portion of Denton County on Highway 407, west of Lewisville, 20 miles north of Dallas, 34 miles northeast of Fort Worth, 15 miles southeast of Denton and 8 miles north of Dallas-Fort Worth International Airport. The City is primarily residential.

The City's estimated 2016 population is 16,149, a 8% increase over the past 10 years. A reflection of this sustained growth in population is evidenced by a consistent trend in the number of single-family residential permits being issued. The City is currently approximately 95% built out, with approximately 311 single-family residential homes remaining to be built in platted and unplatted parcels. The estimated build out date is approximately 2022. Over the last five years, the City has averaged 19 single-family residential permits annually. The average assessed value for existing single-family dwellings on the 2015 Tax Roll was $320,159.

The City of Highland Village operates under a council-manager form of government. Policy-making and legislative authority are vested in a governing council (City Council), consisting of a mayor and six other members, all elected at large. The Council appoints the City Manager, who in turn appoints the heads of the various departments. All council members are elected for two-year terms.

This report includes all funds and account groups of the City. The City provides a full range of services. These services include police and fire protection; the construction and maintenance of streets and infrastructure; recreational facilities and cultural events. In addition to general government administrative services, the City provides water, sewer and sanitation services. The City is also financially accountable for a legally separate component unit – the Highland Village Community Development Corporation, which is reported as a blended component unit within the City of Highland Village's financial statements (see Note 1A for additional information).

The Council is required to adopt a final budget by no later than September 30th – the close of the fiscal year. This annual budget serves as the foundation for the City of Highland Village's financial planning and control. The budget is prepared by fund, category (personnel, services/supplies, capital) and department (e.g., police, fire, human resources). Departments may reallocate resources within a category, but reallocation between categories or departments requires council approval.

Local Economy

The national economy is relatively steady with modest growth, with the North Texas economy continuing as a bright spot. In general, North Texas as a whole continues to experience substantial growth, with job creation at higher levels than much of the nation, as well as adding a number of corporate relocations to this area. The area housing market has grown steadily over the past few years. The close proximity of the Dallas-Fort Worth International Airport and both cities of Dallas and Fort Worth enhance increasing residential development. The average value of new construction residential permits was approximately $321,891. There were 16 single-family permits issued during fiscal year 2015/2016 for a total construction value of $5,150,256. In addition, there were 5,481 water connections, with 5,143 being the total residential. Since the City's residential tax base is a significant portion of its annual budget, these increases have the most significant impact on the City's ability to raise revenues to provide the services and conditions for future growth.

There were 28 commercial permits issued during the year for a total construction value of $43,443,521. Increased commercial development has certainly enhanced the business and economic outlook for the City. Over the past fifteen years, the City has realized gradual economic development, beginning with the completion in 1995 of the 80,000 square foot Highland Village Town Center shopping complex. Phase II of this development was completed in October 1997. Kroger's grocery chain has been the anchor commercial development in the Town Center complex, however closing this year. The City is actively working with the complex owners to locate another anchor tenant to provide needed stability for remaining tenants in this development. Valley Ridge Center, a professional office complex on FM 407 was also added in 1997. A new bank, United Community Bank, opened for business in 1998 with a temporary building - a permanent bank building was

completed in 1999. A merger with Independent Bank in 2012 further solidified the bank and now serves as the City's depository.

In January 1999, the City Council initiated implementation of an overlay ordinance for nonresidential development. This change was enacted to create a unique look for Highland Village by requiring a residential look to nonresidential uses. This effort was seen as an economic development issue to ensure quality future development. The completion of Village Parkway in 1998 in the western part of the City provides additional economic stimulus for the City - particularly now that TXDOT has constructed a segment that extends this roadway to Denton as an extension of FM 2499, providing an alternate route to DFW Airport. And this, in turn, greatly enhances the commercial value of the developments at the FM 407 and FM 2499 intersection with the resulting increase in traffic.

Village Creek Center, started in the mid 1980's, added three new buildings in 1999 to complete their site plan. This center includes restaurant facilities and professional office space. In 2000, a two-building professional office development was completed and fully leased, with plans to expand by another building. Also in 2000, Tartan Village Retail Center opened with 6,000 square feet of retail space and Barnett Center constructed a childcare facility. The Barnett Center added an animal hospital in 2002 and a 56,000 square foot assisted living facility was added in 2003, with a 35,000 square foot extensive care addition completed the following year.

Celebrations, a 12,000 square foot banquet hall, was completed in 2003, updated in 2015 with new owners with addition of a chapel – transforming the facility to a wedding / reception facility. A 17,000 square foot retail center, Tartan Square, was added in 2004. Highland Village Business Park was completed, with two office / professional buildings totaling 16,000 square feet, in early 2005.

With limited remaining undeveloped commercial property in Highland Village – primarily located along FM 407 and FM 2499, the City focused on the remaining undeveloped property to ensure compatible, high-quality development. An additional overlay district was developed for this area to apply standards that will assure the highest and best use, with the potential for increased sales tax revenues while continuing to maintain the high quality of life in Highland Village.

The remaining principal area for retail development, at the intersection of FM 407 and FM 2499, saw substantial activity beginning in 2006. At the northeast corner of this intersection - the Marketplace at Highland Village, a 66-acre retail mixed-use development anchored by a 205,000 square foot Wal-Mart Super center, also including approximately 280,000 square feet of retail, office, and restaurants, saw some of its businesses open in October 2006, with the Wal-Mart store opening in November 2007. The Wal-Mart store is truly one-of-a-kind, with preservation of a 125 year-old pecan tree incorporated into the front entrance of the store.

On the northwest corner of the intersection, The Shops at Highland Village, a 45-acre development opened in September 2007. Barnes & Noble and an AMC Theater anchor the 380,000 square foot center, with upscale retail stores including Banana Republic, Victoria's Secret, as well as a variety of restaurants. The Shops at Highland Village is a pedestrian friendly, lifestyle shopping experience featuring fountains, outside dining areas, and pedestrian walkways – also connecting to the City's Inland Trail system. And the addition of Whole Foods in September 2014, further cements the vitality of this development.

Just east of the Marketplace, The District of Highland Village, initially approved by Highland Village City Council in March 2007, was planned as a "Main Street" center with retail and residential townhomes. Construction of the first phase was completed, but additional construction stalled due to the economic downturn. A redesigned plan was presented to City Council in FY 2011, but denied

– prompting a lawsuit by the property owner based on the City's denial of the rezoning request. During the ensuing year, the City and its legal counsel thoroughly defended against the claims made in the lawsuit. City officials and staff worked diligently with the property owners to settle their dispute, resulting in approval by City Council in November 2012 of a new development plan to provide open air plazas for a mixed-use development of residential lofts, retail, and office professional facilities, offering a unique and desirable high-end loft living lifestyle currently not available in Highland Village and adjacent cities. Construction initiated in 2014 and is ongoing.

The City is primarily a residential community with a relatively small commercial base. New residential construction has slowed from previous years, with substantial residential build-out expected in the near future. Roughly 311 potential lots remain, most of these associated with several developments in the western portion of the city, providing very modest residential building activity.

There are shopping areas with major retail department stores, variety stores and chain stores located in the general vicinity of Highland Village. Wholesale firms, distributing automobile parts and supplies, electronics, lumber, meats, plumbing fixtures, petroleum products and boat distributors are also located in the general vicinity. A plentiful supply of skilled labor is available to industry in the Highland Village area. Denton County reflected an unemployment rate of 3.6% as of September 2016.

Long Term Financial Planning

Economic Development, specifically retail development, continues to be a primary objective. This will not only provide desired amenities for residents' immediate access, but also an avenue to diversify the City's revenue stream that is highly dependent on property tax. This is especially pertinent as the City nears substantial residential build-out, and accompanying declining growth in assessed valuation. A stated focus of Council is to maintain the current tax rate. This, coupled with declining growth in assessed valuation, provides a challenge to maintain the high level of services provided for in this community. A continued primary focus over the next few years is to maintain current staffing levels through residential build-out while maintaining the City's excellent level of service.

Future water supply, pumping facilities, and wastewater treatment will also continue to be a focal point of meeting growth demands through build-out. Highland Village has contracted with the Upper Trinity Regional Water District (UTRWD) to take three million gallons of water per day (MGD). This water supply supplements the City's four productive water wells. A utility rate structure was updated to provide a 70/30 mix of surface water and ground water respectively.

To meet the City's wastewater needs, a long-term solution was finalized in June, 1995, with 1.8 million gallons per day treatment contract with the Upper Trinity Regional Water District's Lakeview Wastewater Reclamation Project, which provided for a participatory contract to meet the City's build out wastewater effluent needs. In the initial stage of this contract, developer contributions (Impact Fees) have paid the bulk of the annual commitments with the existing ratepayers paying a minimal portion of the contract cost. The City's current capacity is at 1.65 MGD, but the City may reinstate the 1.8 MGD capacity at a future date, if needed. The subscribed capacities for both water and sewer are generally expected to be sufficient through build-out.

A municipal drainage utility was formed at the end of FY 2006 to fund a storm water quality program and related drainage projects necessitated by Phase II MS 4 Storm Water Regulations – administered by the Texas Commission on Environmental Quality (TCEQ). A rate of $1.20 per 1,000 square feet of impervious cover was established to fund this program – unchanged until FY 2015

when adjusted to $1.40. The monthly average for most City residents is about $5.00. The utility has a staff of five positions and has procured needed equipment. The utility has achieved great success, already completing a number of needed drainage projects - also achieving substantial cost savings by averting contracting of these projects. In FY 2013, an aggressive mosquito abatement program was developed to address the significant increase in West Nile Virus, and is ongoing.

The City continues to address park programs to meet the changing needs of the community. The governing body adopted an ordinance in 1991 to establish Park Development Fees to be paid by the development community. These fees are dedicated to Park Development. This ordinance was revised in 1997 to collect fees for three components – community park, inland trail system, and neighborhood parks. Phase I of the development of Unity Park was completed and was utilized in full for athletic activity in early 1996. In September 1996, $1,850,000 in General Obligation Bonds was issued to complete Phase II of Community Park and provide improvements to other City parks. Phase II of the Park, completed in April 1997, includes lighting, restrooms and concessions. Additional parking and restroom enhancements were added in 2012 funded by a certificate of obligation. An inter-local agreement with the Lewisville Independent School District allows the City and Briarhill Middle School (adjacent to Unity Park) to share common facilities. Completion of Village Park in 2005 provided a neighborhood park in the western quadrant of the City.

An additional primary focus of the City has been the establishment of a comprehensive trail system throughout the City. The initial spine (9.83 miles) of the trail system was initiated with securing a $1 million TEA-21 grant. This was completed in 2006 with a cost of $1.7M. Voters approved a ½ cent 4B sales tax in November 2004 – specifically targeted for trail development and a soccer complex. All future development of the trail system is to be funded by the 4B sales tax. A $3M bond issue in 2008 provided funding for the next section – with another $3.8M bond issuance in FY 2009 to further expand the trail system in the City. A continuous trail segment now spans the length of the entire City.

The Doubletree Ranch property was purchased in 2009 with funds from a certificate of obligation – with the associated annual debt service to be reimbursed to the City with 4B revenues. This property, 36 acres in the eastern portion of the City, will provide open space, trails, and area for soccer fields, in a pristine setting. A master plan for this property was approved in 2011, and design was initiated in FY 2013. In FY 2014 a $6.7M Certificate of Obligation was issued to supplement remediation funds of $2.8M previously received from TxDOT associated with the loss of Copperas Branch Park resulting from the expansion of I-35 - to be redirected to Doubletree Ranch Park, to fund park construction. Accordingly, construction commenced in FY 2014. The Park substantially opened in August 2016, with the Splash Pad section to be delayed until May 2017. Ultimately, 28 miles of trails are envisioned in the Trail Master Plan. In addition, Lakeside Community Park was completed in 2015, utilizing 4B revenues. This park – with water front access to Lake Lewisville, includes a ¼ loop trail, two pavilions, all with fantastic lake views.

A number of recreation programs have been initiated. In particular, baseball and soccer associations have experienced consistent participation, and have remained quite successful.

Major Initiatives

The City's staff, following specific directives of the City Council and City Manager, has been involved in a variety of projects throughout the year. These projects reflect the City's commitment to ensuring that its citizens are able to live and work in an enviable environment. The following are initiatives and programs relating to general governmental functions:

- Received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the submitted 2015 Comprehensive Annual Financial Report (CAFR).
- Received the GFOA Distinguished Budget Presentation Award for the Fiscal Year 2016 Budget.
- In conjunction with Information Services, developed a process in Laserfiche (records management software) to supplement an electronic purchase order process.
- The City's first resident satisfaction survey was conducted in the spring of 2016. A professional firm was hired to create and administer the survey and provide a summary of findings. Results showed over 80% of residents are pleased with the services they receive for the tax dollars paid. Interaction with staff also received high marks from residents.
- Redesigned the HVBA website to create a responsive design and more options for promoting HVBA news and events.
- Provided Leadership Performance Development training for Public Safety.
- Proactively responded to over 225 requests from the public for City records made through the Public Information Act (Open Records). In an effort to expedite the processing of requests and preserve paper, requests can be made electronically with responsive records provided electronically when possible.
- To facilitate cost savings, the City has a joint contract with Denton County to have Denton County Elections conduct all City elections, therefore sharing the elections costs with other entities also contracting with Denton County Elections.
- Organized an Orientation and Training Workshop for Board and Commission members.
- Relocated to a more secure server room and upgraded the Internet speed of the fiber line.
- Assisted in the first phase of the new Computer Aided Dispatch (CAD) software installation.
- Audited and tested the accuracy of the address database to be used for the new CAD software.
- Developed and tested backups with snapshot captures of the core servers. Also facilitated a plan for recovery in the event of a system failure.
- Identified and made plans to remove all single points of failure for network security.
- Completed the installation of the 68Tb storage unit to accommodate the increase in Police and Communications video needs.
- Implemented a new firewall increasing network protection and network traffic reporting.
- Transitioned Computer Aided Dispatch/Records Management System (CAD/RMS) from CRIMES to Integrated Computer Systems (ICS). Training, data conversion, and primary software module deployments were accomplished. This upgrade will allow for more efficient use of Police and Fire resources, data sharing, and reporting.
- Updated the Public Safety Radio System, including Motorola mobiles, portables, and Dispatch radio console systems. The transition to the Denton County Radio System went live at the end of Fiscal Year 2016. These upgrades will address critical safety issues for Police and Fire personnel by reducing radio dead spots, providing comprehensive radio coverage throughout our operational area, improving inter-agency communications, and allowing for individually issued portable radios.
- Secured funding for two additional Police Officer positions, at no cost to the City, with a four year contract with The Shops at Highland Village valued at more than $800,000. The agreement provides for continued use of the existing Police Substation located at The Shops at Highland Village. Thus far, the program has averaged 380 hours a month and has been very successful in increasing positive officer interactions with our local business community.
- Began a three year replacement schedule for upgrading all outdated VIEVU LE2 Police body cameras with the latest technology from L3, BodyVISION.

- Implemented a new Court and City Council security screening process for enhanced safety and security which includes a new walk-through metal detector.
- The E-Watch/Business E-Watch program was migrated from an outdated forum based software to the new Nixle platform. This platform is capable of reaching members through email and text message, and integrates with our existing Police Twitter and Facebook pages enabling our E-Watch messages to be simultaneously sent to members using their preferred communication method. Our total E-Watch membership now exceeds over 4,100 subscribers.
- The Police Department is currently testing and evaluating a ruggedized mobile tablet computer to replace traditional ruggedized laptops in police vehicles. If adopted it will allow the department to issue tablets to individual Police Officers for field use.
- In October 2015, the department raised over $22,000 during the Fallen Officers Bike Race and 5K and preceding Restaurant Week that leads up to the event. Proceeds go to the Texas Police Chiefs Association's Fallen Officer Fund, which provides monetary assistance to families of Police Officers killed in the line of duty in Texas.
- The Highland Village Police Department is committed to fundraising and educational awareness for Special Olympics Texas. In Fiscal Year 2016, the Police Department raised over $50,000 through various events including Steaks and Stetsons, shirt sales, Tip-a-Cop, and community car washes. Personnel participated in both the spring and summer games held at the University of Texas at Arlington.
- An estimated $20,000 in gifts were donated to Denton County kids and families in need during the Police Departments annual Toy Drive.
- Increased the number of Automatic External Defibrillator's (AED's) for public access by adding three additional units in key City buildings.
- Ordered the departments new Mobile Intensive Care Unit (MICU), which is anticipated to arrive early in Fiscal Year 2017.
- The State Asset, Type III Fire Engine was delivered and placed into service.
- Implemented new CAD/RMS software to improve emergency response and data gathering.
- Continued the implementation of CityWorks Permitting, Licensing, and Land (PLL) program. Permits are being entered electronically, thus enhancing the process by making it more streamlined and transparent.
- Performed a total of 2,291 inspections.
- Code Enforcement worked with approximately 2,195 properties on various code violations such as drainage and erosion control, cleanliness of construction sites, high grass, fences, parking issues, signage, and outside storage.
- Adopted the 2015 Building Codes including the 2015 International Energy Conservation Code. The implementation of these Codes will conserve energy use and provide a better indoor environment while saving money for the consumer.
- Completed the Sellmeyer Lane Paving Improvement Project and overlay of Highland Village Road.
- Completed the 2016 Overlay Project which included Meadowlark Lane, Foggy Glen, Trails End, Millwood Drive, and a portion of Medina Street.
- Acquired a bucket truck that is used by all City departments. To date, it has been utilized ten times, saving the City money by removing the need to rent a bucket truck.
- Continued the LED light upgrade project, installing retrofit LED lighting in City Hall to replace all T-8 fluorescent fixtures.
- Continued the construction of Doubletree Ranch Park, which is scheduled to be complete in October 2016.
- Designed the Unity Park Dog Park and began construction.

- Designed the trail connection from Remington Drive to Highland Village Road.
- Completed installation of the fitness station at Unity Park.
- Assisted the Art Board with the Second Annual Art Festival.
- Assisted TxDOT with design and bid document preparation for a new trail on Highland Village Road and a pedestrian bridge over Copperas Branch Lake.
- Installed security cameras at the FM 2499 Pedestrian Tunnel and Southwood Well Lot.
- Upgraded the athletic fields at Brazos Park including laser grading and laying new sod.
- Installed new roofs over the baseball/softball dugouts at Unity Park.
- Extended the boat dock at Pilot Knoll Park.
- Installed Pickleball Courts at the Unity Park Tennis Courts.
- Kids Kamp had record setting attendance over the summer.
- Established several new community education classes including Hunter Safety Education, Texas Isshinryu Karate Kai, Turbo Techniques Agility Training, Stand Up Paddle Boarding, and Senior All-Star Quilting.
- Installed a Thor Guard lightening prediction system at Doubletree Ranch Park.
- Installed the irrigation system and water fountains at the Unity Park Dog Park.
- Installed a self pay station at Pilot Knoll Park.
- Held the Celebrate Highland Village fireworks at Unity Park.
- Completed construction of the Sellmeyer Lane Water Line improvements project.
- Continued the televising program to identify Inflow and Infiltration (I&I) issues in the sanitary sewer system.
- Excavated and repaired 55 water main breaks, service line leaks, and sanitary sewer line breaks.
- Maintained the Outstanding Drinking Water System Award from TCEQ.

Relevant financial policies

The City's financial policies address accounting and fiscal operations of the City with emphasis on asset management, operating reserves and fund balances. The City has established policies to maintain a fund balance equivalent to at least 15% of General Fund expenditures. Accordingly, fund balance levels have remained above this level. Ending fund balance was 34% in FY 2011, 37% in FY 2012, 34% in both FY 2013 and FY 2014, 32% in FY 2015, and 37% in FY 2016. Financial policies provide for one-time or non-recurring revenues not being used to finance current ongoing operations. Non-recurring revenues should be used only for one-time expenditures such as long-lived capital needs. They will not be used for budget balancing purposes. Fund balance levels are currently higher than anticipated to be necessary on an on-going basis. With recent initiatives realized in diversification of the City’s revenue base – specifically a higher percentage of sales tax revenues, the City will likely maintain a fund balance higher than the current policy of 15%, but less than current actual levels. Concurrent with establishing a track record with the expanded sales tax base, is a gradual plan to reduce fund balance levels – specifically by funding capital items with excess reserves. A continuing priority is to ensure sufficient revenues are available for the level of operating expenditures.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Highland Village for its comprehensive annual financial report for the fiscal year ended September 30, 2015. This was the twenty-third consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and

efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

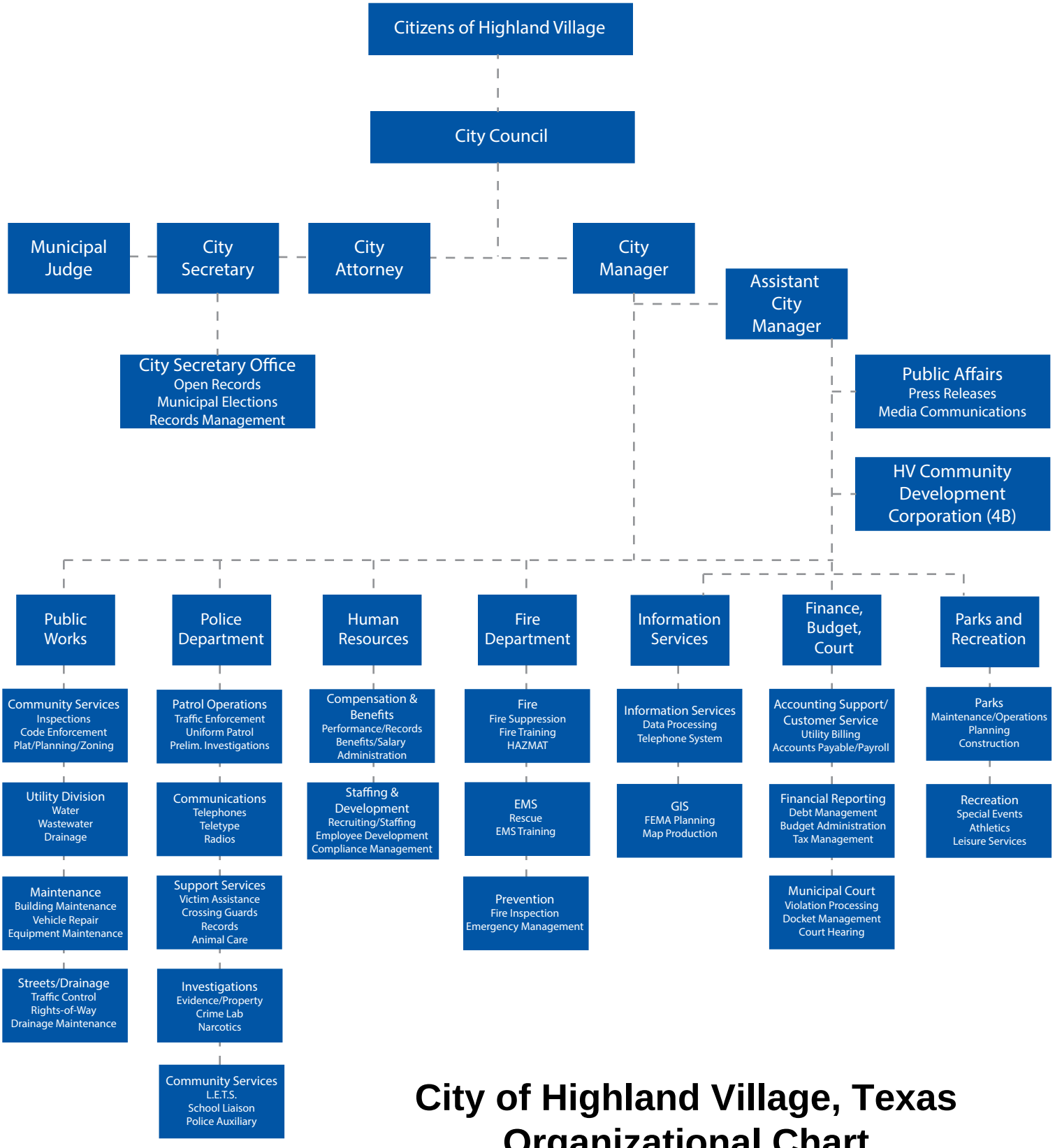
In addition, the City also received the GFOA Distinguished Budget Presentation Award for its annual budget document for fiscal year 2016– the City's tenth consecutive receipt of this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the finance department. Thanks especially to Heather Miller for her hard work toward the completion of this document and continued commitment to excellence in accounting standards. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the City Council of the City of Highland Village, preparation of this report would not have been possible.

Sincerely,

Ken Heerman
Assistant City Manager



City of Highland Village, Texas
Organizational Chart
Fiscal Year 2015-2016

CITY OF HIGHLAND VILLAGE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OCTOBER 1, 2015 - SEPTEMBER 30, 2016

HOME RULE, COUNCIL-MANAGER FORM OF GOVERNMENT

MAYOR AND CITY COUNCIL

		Term Expires
Charlotte Wilcox, Mayor	Place 1	05/2018
Michell Schwolert, Mayor Pro Tem	Place 2	05/2018
Mike Lombardo	Place 3	05/2017
Barbara Fleming	Place 4	05/2018
Frederick Busche	Place 5	05/2017
John McGee	Place 6	05/2018
William Meek	Place 7	05/2017

ADMINISTRATIVE

Michael Leavitt	City Manager
Angela Miller	City Secretary
Ken Heerman	Assistant City Manager
Scott Kriston	Director of Public Works
Doug Reim	Police Chief
Brad Goudie	Fire Chief
Martha Butz	Human Resources Director
Linda Cornelius	Director of Parks & Recreation

Prepared by:
City's Finance Department

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Highland Village Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2015

Executive Director/CEO

FINANCIAL SECTION

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and City Council
City of Highland Village, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Highland Village, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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TEMPLE, TX
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AICPA
Governmental Audit Quality Center

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the City of Highland Village Texas' fiscal year 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Changes in the City's Net Pension Liability and Related Ratios and the Schedule of City Contributions, and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Highland Village, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, capital asset schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, and capital asset schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules, and capital asset schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2017, on our consideration of the City of Highland Village, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Highland Village, Texas' internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 27, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Highland Village, we offer readers of the City of Highland Village's financial statements this narrative overview and analysis of the financial activities of the City of Highland Village for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Highland Village exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $52,787,340. Of this amount, $4,035,818 may be used to meet the government's ongoing obligations to citizens and creditors.

- The City of Highland Village's total net position decreased by $103,679. A $546,408 decrease in net position related to governmental activities was offset by an increase of $442,729 in net position in business-type activities.

- As of September 30, 2016, the City of Highland Village's governmental funds reported combined ending fund balances of $7,405,243, a decrease of $963,889 in comparison with the prior year. Approximately 53 percent of this total amount, $3,933,919, is available for spending at the government's discretion (unassigned fund balance).

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $3,933,919, or 27 percent of total General Fund expenditures.

- The City of Highland Village's total debt decreased by $1,070,000 during the current fiscal year. A key factor in this decrease was the schedule debt payments for the governmental activities and business-type activities of $2,055,000 and $880,000, respectively. The City also issued $7,700,000 in general obligation refunding bonds refunding $7,370,000 of debt issued by the governmental activities. Additional, the City issued $1,535,000 in tax notes for the governmental activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis are intended to serve as an introduction to the City of Highland Village's basic financial statements. The City of Highland Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Highland Village's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Highland Village's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Highland Village is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in the governmental fund financial statements.

In the Statement of Net Position and the Statement of Activities, the City is divided between two kinds of activities:

> **Governmental activities**. Most of the City's basic services are reported here, including the police, fire, community development, public works, information services, park services, municipal court, and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.
>
> **Business-type activities**. The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and drainage utilities are reported here.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City Council also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City of Highland Village can be divided into two categories: governmental funds, and proprietary funds.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

The City of Highland Village maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and Highland Village Community Development Fund, all of which are considered to be major funds. Data from the other 8 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's Enterprise Fund (a component of proprietary funds) is identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

The City of Highland Village maintains an Enterprise Fund to account for water and sewer services provided to the City's retail and wholesale customers. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Highland Village's budgetary comparison schedules and its progress in funding its obligation to provide pension benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was $52,787,340 as of September 30, 2016. Analyzing the net position of governmental and business-type activities separately, governmental activities' net position was $43,135,445 and business-type activities' net position was $9,651,895. This analysis focuses on the net position (Table 1), and the changes in net position (Table 2).

The largest portion of the City's net position reflects its net investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TABLE 1
CITY OF HIGHLAND VILLAGE'S NET POSITION

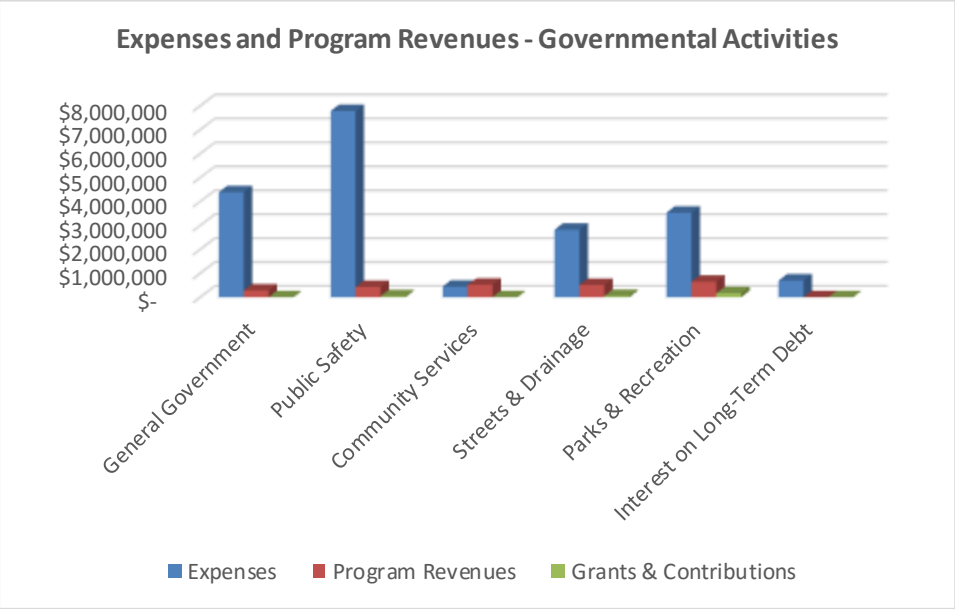
	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2,015	2016	2015
Current and other assets	$ 9,034,419	$ 10,547,273	$ 5,109,008	$ 7,805,552	$ 14,143,427	$ 18,352,825
Capital assets	63,822,761	63,138,604	17,682,435	16,373,799	81,505,196	79,512,403
Total assets	72,857,180	73,685,877	22,791,443	24,179,351	95,648,623	97,865,228
Deferred outflows of resources	2,786,120	1,223,047	436,554	300,617	3,222,674	1,523,664
Long-term liabilities	27,223,194	26,054,795	11,605,742	12,361,277	38,828,936	38,416,072
Other liabilities	5,122,701	5,164,758	1,950,363	2,908,540	7,073,064	8,073,298
Total liabilities	32,345,895	31,219,553	13,556,105	15,269,817	45,902,000	46,489,370
Deferred inflows of resources	161,960	7,518	19,997	985	181,957	8,503
Net position:						
Net investment in capital assets	40,067,568	40,160,271	6,738,242	5,519,051	46,805,810	45,679,322
Restricted	1,062,313	1,310,755	883,399	859,804	1,945,712	2,170,559
Unrestricted	2,005,564	2,210,827	2,030,254	2,830,311	4,035,818	5,041,138
Total net position	$ 43,135,445	$ 43,681,853	$ 9,651,895	$ 9,209,166	$ 52,787,340	$ 52,891,019

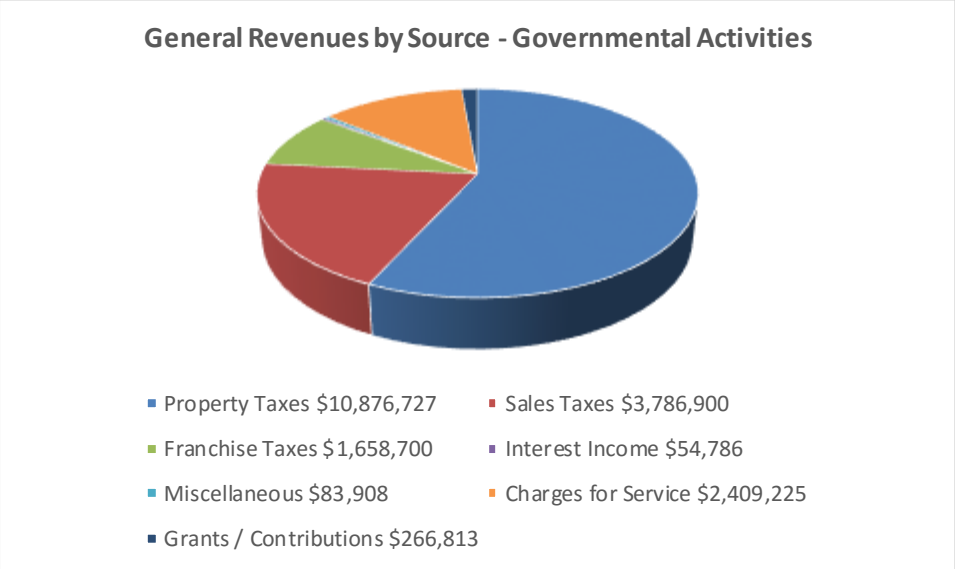
The following table (Table 2) provides a summary of the City's operations for the year ended September 30, 2016. Governmental activities decreased the City's net position by $546,408 while business-type activities increased the City's net position by $442,729, resulting in a net $103,679 decrease in total net position.

TABLE 2
CITY OF HIGHLAND VILLAGE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	$ 2,409,225	$ 1,955,360	$ 8,011,036	$ 7,888,614	$ 10,420,261	$ 9,843,974
Operating grants and contributions	44,839	32,377	-	-	44,839	32,377
Capital grants and contributions	221,974	1,353,726	911,608	104,191	1,133,582	1,457,917
General revenues:						
Property taxes	10,876,727	10,220,940	-	-	10,876,727	10,220,940
Sales taxes	3,786,900	3,690,787	-	-	3,786,900	3,690,787
Franchise fees	1,658,700	1,722,995	-	-	1,658,700	1,722,995
Interest income	54,786	36,026	19,201	17,104	73,987	53,130
Gain on sale of asset	-	-	-	-	-	-
Miscellaneous	83,908	122,009	-	-	83,908	122,009
Total revenues	19,137,059	19,134,220	8,941,845	8,009,909	28,078,904	27,144,129
Expenses:						
General government	4,392,360	4,330,662	-	-	4,392,360	4,330,662
Public safety	7,782,368	6,848,781	-	-	7,782,368	6,848,781
Community services	446,470	415,562	-	-	446,470	415,562
Streets and drainage	2,826,584	2,546,268	-	-	2,826,584	2,546,268
Parks and recreation	3,534,661	3,199,678	-	-	3,534,661	3,199,678
Interest on long-term debt	699,315	836,051	-	-	699,315	836,051
Water and wastewater	-	-	8,500,825	8,525,158	8,500,825	8,525,158
Total expenses	19,681,758	18,177,002	8,500,825	8,525,158	28,182,583	26,702,160
Change in net position before transfers	(544,699)	957,218	441,020	(515,249)	(103,679)	441,969
Transfers	(1,709)	300,000	1,709	(300,000)	-	-
Change in net position	(546,408)	1,257,218	442,729	(815,249)	(103,679)	441,969
Net position, beginning	43,681,853	44,698,844	9,209,166	10,322,258	52,891,019	55,021,102
Change in accounting principle	-	(2,274,209)	-	(297,843)	-	(2,572,052)
Net position, ending	$ 43,135,445	$ 43,681,853	$ 9,651,895	$ 9,209,166	$ 52,787,340	$ 52,891,019

Governmental activities. The City's expenses for governmental activities are detailed below – with associated program revenues.





Net position associated with governmental activities decreased $546,408 in FY 2016 – this compared to a $1,257,218 increase in net position in FY 2015.

- FY 2016 revenues increased $2,839 from the previous year. Key elements of this increase is as follows:

    - Property taxes increased by $655,787 during the year. Most of this increase is the product of a 6.9% increase in the taxable assessed value of the property.

    - Sales tax revenue increased by $96,113 reflecting consumer spending remaining steady for the City's retail developments.

    - Charges for services increased by $453,865. This increase is contributed by a new police service contract with the Shops at Highland Village, an increase in building permit revenues related to an increase in the associated construction valuation and an increase in Kids Kamp enrollment and Pilot Knoll Park reservations.

    - Capital grants and contributions decreased $1,131,752. In the previous year, the remainder of a $2.8M remediation grants advancement received from TxDOT was recognized. This remediation grant was associated with loss of park land / access with widening of I-35. These funds were directed to construction of a new park and the fees have been recognized accordingly.

- FY 2016 expenses increased $1,504,756 from FY 2015, reflecting inflation and increased service demand. The total expense amount of $19,681,758 was more than total revenues – creating a $544,699 decrease before transfers. This compares to a $957,218 increase in FY 2015.

    - General government expenses increased by $61,698 related to:

        - City Manager Office expenses decreased $168,332 largely related to the City's participation in the construction of a parking access adjacent to a City park and a correction of an omission related to an employee contract in the prior year.

        - Finance / Information services expenses increase of $292,846 is attributed to an increase of personnel expenses of $174,459 is a result of adding two information services positions. Additionally, information services incurred expenses of $84,673 related to the public safety Radio System and Dispatch Center improvements.

        - Maintenance experienced a $141,162 decrease in expenses over prior year. This decrease is mainly due to the reduction in fuel prices for City fleet vehicles resulting in a savings of $34,641 compared to FY15. Also, there were significant building repairs in the prior year related to replacement of flooring, roof repairs, light bulb replacement to LED bulbs, water heater replacement, and sidewalk/walkway control joint repairs amounting to $56,856.

- Street and drainage expenses reflected an increase of $280,316 related to a major street overlay project.

- Increases in public safety of $933,587 were partially attributed to the $378,207 investment in public safety portable and mobile radios related to the Radio System and Dispatch Center improvements. Additionally, a new police service contract with the Shops at Highland Village funded two new police positions resulting in an $118,598 increase in police personnel expenses. Fire personnel cost increased by $143,928 related to the addition of three firefighter/paramedic positions which eliminated the need for five part-time positions. Also increasing the public safety personnel costs by $209,200 is the current year change in the net pension liability.

- Parks and recreation expenses increased $334,983 partly as a result of the acquisition of $117,097 in furnishing and equipment for the Double Tree Ranch Park and $45,559 for other parks. Also, program expenses related to Kids Kamp, Celebrate Highland Village, and Tennis Programs increased by $55,630 due to increase in participation. A $91,497 increase in parks and recreation personnel expenses was the result of some vacant positions in the previous year.

Business-type activities: Business-type activities reflected a $442,729 increase in the City's net position – this compared to an $815,249 decrease in net position in FY 2015. Overall, revenue exceeded total expense and transfers.

- Charges for service increased $122,422 from last year's total of $7,888,614. Water sales remained constant from the previous year, with a slight increase of $10,832. A more significant increase of $126,969 was realized in sewer sales. Increased water usage during the winter months of 2015 resulted in a higher average basis utilized to determine sewer amounts (average usage over four winter months is used to determine a maximum billing usage in effect for the following year - with intent of excluding irrigation usage in summer months).

- Capital grants and contributions increased $807,417 due to increased collection of impact fees (collected at time of building permit) of $115,371 and water and sewer capital improvements of $692,045 contributed by the developer of the Wichita Estates subdivision.

- Expenses decreased $24,333 from last year. Reductions in meter and well lot maintenance of $383,661 was primarily related to the completion of the Automated Metering Analytics (AMA) project and significant repairs to the Highland Shores Boulevard, Lake Vista and Oak Street water wells in FY15. This was offset by Wholesale Water / Wastewater increase of $144,867 mostly attributed to increased volume charges and joint facilities charge from the UTRWD and loss of disposal of the FM 407 Ground Storage Tank and Pump Station in the amount of $128,296. Significant components of the well were demolished and rebuilt to accommodate a larger capacity. Additionally, an annual maintenance agreement related to the AMA software of $51,751 began in the current year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $7,405,243 a decrease of $963,889 in comparison with the prior year. Approximately 53 percent of this total amount, or $3,933,919, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for spending because it has already been restricted - $1,686,794, committed - $262,224, assigned - $1,270,558, or non-spendable - $251,748.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $3,933,919, while total fund balance was $5,456,225. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 27 percent of total General Fund expenditures, while total fund balance represents 37 percent of that same amount.

The original budget for FY 2016 reflected a $194,674 drawdown of fund balance, to fund capital equipment purchases – while still providing for sufficient reserve balances. Revenues were $82,993 below the budgeted amount, while expenditures in FY 2016 also fell below the budgeted amount by $1,124,277. This coupled with a deficiency of $463,717 in other financing sources than budgeted provided an increase in fund balance of $382,894. Key factors affecting fund balance are as follows:

- Total General Fund revenues of $15,025,859 were increased from FY 2015 by $1,020,610.
    - Taxes reflected a $690,573 increase from FY 2015.
        - Property tax revenue increased $693,246 largely resulting from a 6.9% increase in assessed valuation.
        - Sales tax revenue increased $61,622, while franchise fees decreased $64,295.
    - Fines and forfeitures decreased $25,850 as fewer citations were issued in FY 2016.
    - Licenses, permits and fees increased $189,366, largely related to increased permits of $135,693 resulting from increased construction valuation. Parks and recreation fees also reflected an increase of $43,572 due to increased participant in programs and attendance at parks.
    - Intergovernmental revenues increased $48,120 due to FEMA reimbursements received related to street and park damage caused by the floods in spring of 2015.
    - Charges for service increased by $137,776 over last year which is largely attributed to a new police service contract with the Shops at Highland Village.

- Miscellaneous revenues experienced a $38,101 decrease due to auction proceeds received last year.

- Total General Fund expenditures of $14,697,248 represent an increase of $224,204 from the previous year. The FY 2016 actual expenditures were $1,124,278 below the original budgeted amount.

  - Personnel expenditures increased $485,838 from FY 2015 resulting from across the board salary increases of 3% and an addition of seven new positions from the information services, police and fire departments.

  - Services / Supplies expenditures increased by $216,108.

    - City Manager expenditures decreased by $102,137 mainly related to the City's participation in the construction of a parking access adjacent from a City park and the correction of an omission of an employee contract in prior year.

    - Maintenance expenditures decreased by $105,006 as the result of decrease fuel prices on fleet vehicles and significant repairs and maintenance performed on City buildings in the prior year.

    - Fire expenditures increased by $68,724 related to the purchase of new Automated External Defibrillators (AEDs) and equipment fitted to the fire engine purchased in FY 2015.

    - Street maintenance increased by $224,381, related to start of an overlay project (Highland Village Road from the Kansas City Southern railroad line to Brazos Boulevard).

    - Parks and recreation expenditures increased by $98,309 due to the acquisition of park supplies mainly required for the Unity Dog Park and Brazos Park. Additional recreational program expenditures increased as a result of increased participation in programs and attendance at parks.

  - Capital Outlay expenditures decreased by $480,939 in FY 2016, primarily related to acquisition of a replacement fire engine in FY 2015. This decrease was partly offset by the acquisition of network storage device, and the reconstruction of a brick screening wall on FM 2499 and Highland Shores in FY 2016.

- Total Other Financing Sources (Uses) reflected a net total of $54,283 – a $943,244 decrease from FY 2015. Base elements of this total include a transfer in from the Utility Fund of $470,000, a transfer in of $28,446 from the Public Safety Fund related to Child Safety Fees and Fire Mutual aid reimbursements for personnel cost paid from the General Fund, transfers in of $28,000, and $16,000 respectively, from the Highland Village Economic Development Corporation and Drainage Utility Fund for support functions provided by the General Fund, and a transfer in from the PEG fee fund to supplement the purchase of a network storage device. These transfers in were offset by a transfer out of $16,000 to the Drainage Utility Fund for the City's drainage fees, a transfer out to the Capital Project fund to supplement the cost of the Sellmeyer Lane improvements, and a transfer out to the Park Development Fund to supplement the cost of constructing the Unity Dog Park. The majority of decrease from FY 2015 was $633,506 for issuance of a capital lease related to acquisition of a replacement fire engine offset by $250,780 for the issuance of a capital lease in the current year to acquire a replacement ambulance.

The Debt Service Fund has a total fund balance of $141,058, a decrease of $13,285, all of which is restricted for the payment of debt service.

The Highland Village Community Development Fund has a total fund balance of $751,846, a $1,597,239 decrease from FY 2015. In FY 2014, the City issued $6.7M of debt primarily earmarked for the construction of Doubletree Ranch Park. Accordingly, expenditures relating to the construction of the park are the primary reason for the decrease in FY 2016.

Remaining governmental funds reported a combined ending fund balance of $1,056,114, reflecting an increase of $263,741.

- Revenues for these funds reflected an increase of $215,977 from the previous year.

- Combined expenditures increased $1,988,686. The increase is primarily related to capital expenditures in the Capital Projects Fund of $1,620,301, associated with improvements of the Radio System and Dispatch Center and related Computer Aided Dispatch (CAD) software in the amount of $605,574 and the reconstruction of a segment of Sellmeyer Lane in the amount of $991,449, and the Sandburg Place drainage project in the amount of $23,277.

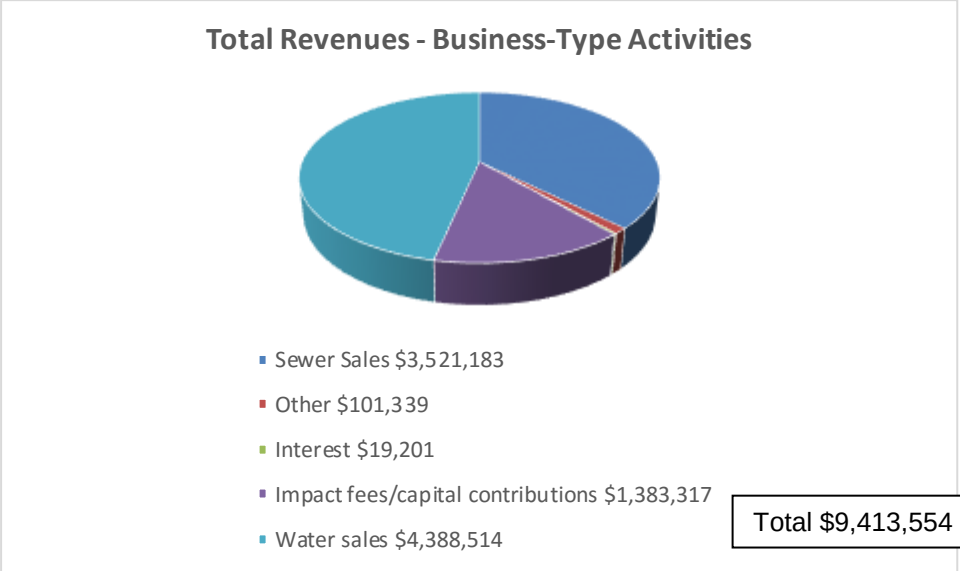
Proprietary funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net position in the Enterprise Fund totaled $9,651,895 at the end of the fiscal year 2016, an increase of $442,729, or 4.8%.Included in net position is $883,399 restricted for capital projects and unrestricted net position of $2,030,254. The remaining net position balance of $6,738,242 consists of net investments in capital assets.

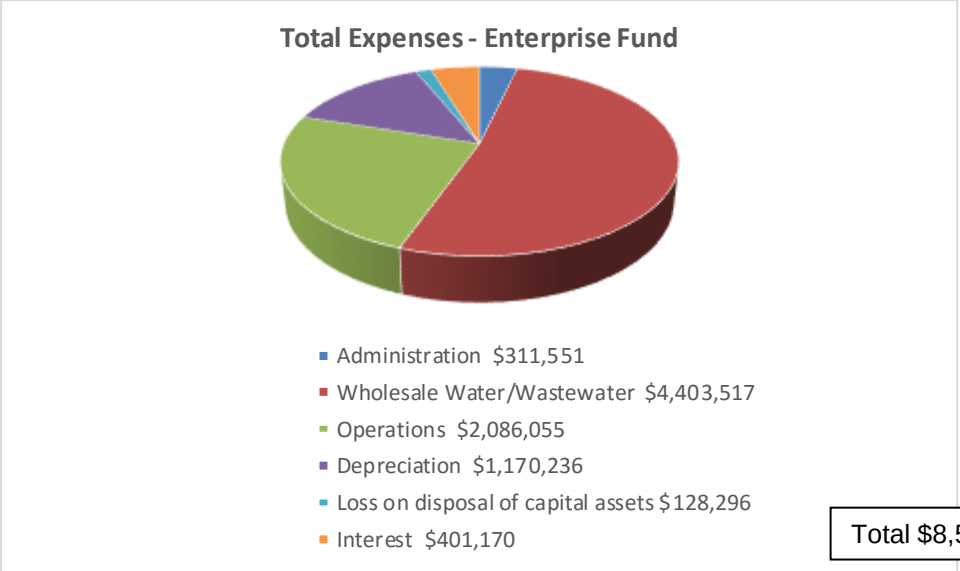
- Utility operating revenues of $8,011,036 reflected an increase of $122,422 or 1.6%, in FY 2016.

  - Water sales increased $10,932.

  - Sewer sales increased $126,969.



- Utility operating expenses of $7,971,359 decreased $131,217, or 1.6%.
    - Administration expenses decreased $195,291 in FY 2016.
    - Maintenance and Operations increased $29,734.
        - Wholesale water / sewer treatment cost increased $144,867.
        - Personnel expenses decreased $2,882.
        - Services and supplies decreased $307,572 primarily due to decreased system maintenance – particularly water meter maintenance, as last year included expenditures related to replacement of the automated meter reading system and well lot maintenance.
- Depreciation increased in FY 2016 by $34,340.



GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2015-2016, the City Council of the City of Highland Village amended the budget for the General Fund on one occasion, resulting in an increase in budgeted expenditures of $596,000. The majority of these appropriations relate to actions taken to fund unbudgeted items during the fiscal year, including the acceptance of grants during the year.

Staff reviewed each supplemental appropriation throughout the year and determined that revenues provided sufficient reserves to recommend their increase. All budget amendments presented had offsetting reductions, except for those that were previously encumbered.

For fiscal year 2015-2016, actual expenditures on a budgetary basis were $14,697,248. This total was less than the original budgeted expenditures of $15,821,526 by $1,124,278, however $1,720,277 below the revised budget. The supplemental requests approved during the year are summarized following:

- Personnel expenditures decreased by a total of $45,000 which consists of increases in City Manager ($10,000), Finance ($40,000), City Secretary ($10,000), Community Services ($30,000), and Recreation ($15,000) Departments, offset by decreases in the Information Services ($80,000), and Police ($70,000) Departments.

- Services and supplies expenditures increased in total by $101,000 which consists of the following amendments:

    - Finance - Increased $5,000 due to speaker fees for HVBA luncheons.

    - Human resources - Increased $5,000 for consideration of potential relocation reimbursement.
    - Information services - Increased $10,000 related to general network infrastructure upgrades.

- Police – Increased $70,000 for professional service for continued evaluation and implementation of the Radio System and Dispatch Center and related Computer Aided Dispatch software system.

- Fire - Increased $15,000 primarily for peripheral equipment related to procurement of a new ambulance and command vehicles.

- Community services - Increased $6,000 due to increased plan review services and updated reference materials.

- Recreation – Increased $50,000 to align with actual accounting for the Tennis program.

- Reduced appropriation in the Maintenance department of $60,000 due decreased fuel costs.

- Increased Capital outlay in total by $540,000 which consists of the following amendments:

  - Information services – Increased $4,000 due to the acquisition of a network storage device.

  - Fire – Increased $290,000 related to the purchase of three new command vehicles and the acquisition of an ambulance financed by a capital lease.

  - Streets – Increased $200,000 related to the construction of brick screening walls adjacent to FM 2499.

Actual revenue on a budgetary basis was $15,025,859 compared to the original budget of $15,108,852, providing a negative variance of $82,993. Actual tax revenues were $339,972 less than the budget amount. This was partially offset by collected licenses, permits and fees being $268,349 more than budgeted. Also, actual intergovernmental revenues exceeded budgeted amounts by $117,540 – largely composed of FEMA reimbursements of cost associated with the flooding in the spring 2015.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets, for its governmental and business-type activities as of September 30, 2016, amounted to $81,505,196 (net of accumulated depreciation). This investment in capital assets includes land, building, park facilities, roads, bridges, water and sewer lines, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

Project	Amount
Double Tree Ranch Park	$7,130,842
FM 407 Ground Storage Tank and Pump Station	2,484,543
Sellmeyer Lane at Wichita Estates	1,323,784
Highland Shores Water Line Phase II	508,439
Brick Walls North of Highland Shores	193,145
Storage Network Device	109,574
2016 Ford Explorer	35,400
2016 Ford Explorer	33,861
2016 Ford Explorer	33,861
2016 Ford Interceptor SUV	33,526
Toro Mower	29,313
Ventek Automatic Pay Station	23,764
2002 Ford F450 Bucket Truck	23,000

TABLE 3

CITY OF HIGHLAND VILLAGE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	$ 17,183,848	$ 17,183,848	$ 75,713	$ 75,713	$ 17,259,561	$ 17,259,561
Land improvements	15,354,680	10,115,048	-	-	15,354,680	10,115,048
Buildings and improvements	7,011,441	6,799,473	1,077,548	1,149,469	8,088,989	7,948,942
Distribution system	-	-	15,320,094	12,332,470	15,320,094	12,332,470
Equipment and machinery	2,002,480	2,044,556	249,813	281,527	2,252,293	2,326,083
Infrastructure	18,247,246	18,705,790	11,062	11,677	18,258,308	18,717,467
Intagibles	19,190	35,332	13,248	17,668	32,438	53,000
Construction in progress	4,003,876	8,254,557	934,957	2,505,275	4,938,833	10,759,832
Total capital assets	$ 63,822,761	$ 63,138,604	$ 17,682,435	$ 16,373,799	$ 81,505,196	$ 79,512,403

Additional information on the City's capital assets can be found in Note D on page 44-45 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonds outstanding of $35,195,000. Of this amount, $23,505,000 is tax-supported debt. The remainder of the City of Highland Village's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

TABLE 4

CITY OF HIGHLAND VILLAGE'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligations	$ 9,435,000	$ 9,545,000	$ 2,890,000	$ 3,515,000	$ 12,325,000	$ 13,060,000
Combination tax and revenue certificates of obligation	12,535,000	14,150,000	8,800,000	9,055,000	21,335,000	23,205,000
Tax notes	1,535,000	-	-	-	1,535,000	-
	$ 23,505,000	$ 23,695,000	$ 11,690,000	$ 12,570,000	$ 35,195,000	$ 36,265,000

The City's total debt decreased by $1,070,000 during the current fiscal year. A key factor in this decrease was the scheduled debt payments of $2,935,000. The City also issued $7,700,000 in general obligation refunding bonds refunding $7,370,000 of debt and $1,535,000 in tax notes.

The City's tax supported debt is rated "AA+" by Standards & Poor's and "AA" by Fitch Ratings. The current ratio of tax-supported debt to assessed value of all taxable property is 1.7 percent.

Additional information on the City's outstanding debt can be found in Note F and G on page 46 – 50 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2016-2017 budget was adopted by ordinance on September 27, 2016. The following summarizes the significant factors that were considered in adopting the budget.

- General fund revenues are budgeted to increase by 4.29% over FY 2016 original budget with property taxes making up 62% of the general fund budgeted revenues. While there was not a proposed property tax increase, the property tax taxable values increased by 4.9%.The property tax rates remains at $0.56963 per $100 valuation, with $0.48279 apportioned to maintenance and operation expenses and $0.08684 apportioned to pay interest and principle maturities on outstanding debt. Sales tax represents 17% of the budget general fund revenues. Sales tax collections are expected to increase 5% over FY 2016 collections.

- General fund expenditures are budgeted to increase by 3.28% over FY 2016 original budget.

    - Personnel expenditures represent 70% of budgeted general fund expenditures. The proposed increase in personnel is $496,188 or 4.5% over FY 2016. This increase is related to proposed salary increases, partially offset by reduction in base salaries from expected retirement and turnover of tenured position. Health insurance is expected to increase $203,816 reflective of a 12% increase in premiums. Pension benefit contributions are expected to increase $42,292 as a result of contribution rate increase from 13.44% in FY 2016 to 13.79% in FY 2017.

- Supplies and services expenditures represent 27% of the budgeted general fund expenditures. Expenditures are expected to decrease by $105,365 or 2.4% from FY 2016. Major purchases include engineering studies for two City parks totaling $31,000, repairs and maintenance to City facilities in the amount of $111,000, and an off-site back up for network data for $38,000.

- Capital outlay expenditures represent 3% of the budgeted general fund expenditures. Capital expenditures are budgeted at $484,000, a $127,500 or 36% increase from FY 2016 original budget. This amount includes $230,000 of equipment replacement, with $254,000 in supplemental requests.

- Double Tree Ranch Park will be fully completed in FY 2017 and accordingly, full program revenues have been budgeted.

- The water and sewer rates have remained constant; however a rate study is currently underway. Due to the combination of weather patterns and change in consumption trends, revenues have been significantly reduced over the past few years, lowering the Enterprise – Water and Wastewater fund's reserve to a minimum level.

- The Dallas Fort Worth metropolitan area continues to experience property value increases; however a lawsuit judgment awarded to a major commercial property tax payer, the Shops at Highland Village reduced the valuation by $25M. Accordingly, the increase in property taxable value of 4.9% was less than the two previous year's increases of 6.1% and 6.9%, in FY 2015 and FY 2016, respectively. There are currently roughly 300 potential lots available for development.

Information on subsequent events is detailed in Note K on page 57 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Highland Village, Finance Department, 1000 Highland Village Road, Highland Village, TX, 75077.

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BASIC
FINANCIAL STATEMENTS

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CITY OF HIGHLAND VILLAGE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 7,425,860	$ 803,612	$ 8,229,472
Receivables (net of allowances for uncollectibles)			
Taxes	1,201,363	-	1,201,363
Accounts	83,597	1,475,871	1,559,468
Intergovernmental	46,695	-	46,695
Other	25,156	5,482	30,638
Inventories and prepaid items	251,748	221,921	473,669
Restricted cash and investments:			
Reserved bond debt service	-	559,848	559,848
Capital improvements	-	897,057	897,057
Construction	-	883,399	883,399
Customer deposits	-	261,818	261,818
Capital assets:			
Nondepreciable	21,187,724	1,010,670	22,198,394
Depreciable, net	42,635,037	16,671,765	59,306,802
Total capital assets	63,822,761	17,682,435	81,505,196
Total assets	72,857,180	22,791,443	95,648,623
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	318,112	131,831	449,943
Deferred outflows related to pensions	2,468,008	304,723	2,772,731
Total deferred outflows of resources	2,786,120	436,554	3,222,674
LIABILITIES			
Accounts payable	921,837	479,991	1,401,828
Accrued liabilities	270,872	69,482	340,354
Retainage payable	488,361	63,288	551,649
Unearned revenue	267,093	-	267,093
Accrued interest	95,168	49,003	144,171
Customer deposits	-	261,818	261,818
Current portion of long-term obligations	3,079,370	1,026,781	4,106,151
Noncurrent portion of long-term obligations	27,223,194	11,605,742	38,828,936
Total liabilities	32,345,895	13,556,105	45,902,000
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	161,960	19,997	181,957
Total deferred inflows of resources	161,960	19,997	181,957
NET POSITION			
Net investment in capital assets	40,067,568	6,738,242	46,805,810
Restricted for:			
Debt service	59,725	-	59,725
Community development	647,532	-	647,532
Public safety	78,495	-	78,495
Utility drainage	240,467	-	240,467
Public broadcasting	36,094	-	36,094
Capital projects	-	883,399	883,399
Unrestricted	2,005,564	2,030,254	4,035,818
Total net position	$ 43,135,445	$ 9,651,895	$ 52,787,340

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 4,392,360	$ 283,062	$ 2,250	$ -
Public safety	7,782,368	429,534	42,589	-
Community services	446,470	524,273	-	-
Streets and drainage	2,826,584	517,450	-	55,810
Parks and recreation	3,534,661	654,906	-	166,164
Interest on long-term debt	699,315	-	-	-
Total governmental activities	19,681,758	2,409,225	44,839	221,974
Business-type activities:				
Water and wastewater	8,500,825	8,011,036	-	911,608
Total business-type activities	8,500,825	8,011,036	-	911,608
Total primary government	$ 28,182,583	$ 10,420,261	$ 44,839	$ 1,133,582

General revenues:
- Taxes:
  - Property taxes, levied for general purposes
  - Property taxes, levied for debt service
  - Franchise
  - Sales
- Unrestricted investment earnings
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
$(4,107,048)	$ -	$(4,107,048)
(7,310,245)	-	(7,310,245)
77,803	-	77,803
(2,253,324)	-	(2,253,324)
(2,713,591)	-	(2,713,591)
(699,315)	-	(699,315)
(17,005,720)	-	(17,005,720)
-	421,819	421,819
-	421,819	421,819
(17,005,720)	421,819	(16,583,901)
9,130,507	-	9,130,507
1,746,220	-	1,746,220
1,658,700	-	1,658,700
3,786,900	-	3,786,900
54,786	19,201	73,987
83,908	-	83,908
(1,709)	1,709	-
16,459,312	20,910	16,480,222
(546,408)	442,729	(103,679)
43,681,853	9,209,166	52,891,019
$ 43,135,445	$ 9,651,895	$ 52,787,340

CITY OF HIGHLAND VILLAGE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General	Debt Service	Community Development Corporation	Other Governmental	Total Governmental Funds
ASSETS					
Cash and investments	$ 5,156,619	$ 141,058	$ 641,725	$ 1,486,458	$ 7,425,860
Receivables (net of allowances for uncollectibles):					
Taxes	984,545	13,835	202,983	-	1,201,363
Accounts	83,397	-	200	-	83,597
Intergovernmental	-	-	-	46,695	46,695
Other	-	-	-	25,156	25,156
Prepaid items	251,748	-	-	-	251,748
Total assets	6,476,309	154,893	844,908	1,558,309	9,034,419
LIABILITIES					
Accounts payable	599,436	-	89,804	232,597	921,837
Accrued liabilities	259,339	-	2,418	9,115	270,872
Unearned revenue	37,812	-	840	228,441	267,093
Total liabilities	896,587	-	93,062	470,153	1,459,802
DEFERRED INFLOWS OF RESOURCES					
Unavailable:					
Property taxes	62,992	13,835	-	-	76,827
Municipal court fines	38,991	-	-	-	38,991
Ambulance	21,514	-	-	-	21,514
Grants	-	-	-	32,042	32,042
Total deferred inflows of resources	123,497	13,835	-	32,042	169,374
FUND BALANCES					
Nonspendable - prepaid items	251,748	-	-	-	251,748
Restricted for:					
Debt service	-	141,058	-	-	141,058
Public parks, recreation, and related projects	-	-	751,846	-	751,846
Public safety - law enforcement operations	-	-	-	78,495	78,495
Utility drainage operations	-	-	-	240,467	240,467
Capital projects	-	-	-	438,834	438,834
Public broadcasting	-	-	-	36,094	36,094
Committed - park development and maintenance	-	-	-	262,224	262,224
Assigned for:					
Subsequent year's budget	315,201	-	-	-	315,201
City manager- contingency fund	2,864	-	-	-	2,864
Finance - professional services	53,244	-	-	-	53,244
City secretary - records management	80	-	-	-	80
Information services - professional services and supplies	15,442	-	-	-	15,442
Public safety - police - services and supplies	144,603	-	-	-	144,603
Public safety - fire - fire truck payment	442,300	-	-	-	442,300
Streets - maintenance and professional services	290,915	-	-	-	290,915
Maintenance - supplies	925	-	-	-	925
Parks - maintenance and supplies	1,301	-	-	-	1,301
Recreation - services	3,683	-	-	-	3,683
Unassigned	3,933,919	-	-	-	3,933,919
Total fund balances	5,456,225	141,058	751,846	1,056,114	7,405,243
Total liabilities, deferred inflows of resources, and fund balances	$ 6,476,309	$ 154,893	$ 844,908	$ 1,558,309	$ 9,034,419

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

Total fund balance, governmental funds		$ 7,405,243
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		63,334,400
Uncollected revenues are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.		
Property taxes	$ 76,827	
Ambulance fees	21,514	
Court fines	38,991	
Grant revenues	32,042	
		169,374
Long-term liabilities, including bonds and tax notes payable, are not due and payable in the current period and are therefore not reported in the funds. Also, the loss on refunding of bonds and premium on issuance of bonds are not included in the funds. The details of these differences are as follows:		
Bonds payable	(23,505,000)	
Deferred amount on refunding	318,112	
Issuance premium	(261,800)	
Accrued interest	(95,168)	
Capital lease obligation	(632,670)	
Compensated absences	(978,820)	
		(25,155,346)
Included in the items related to long-term liabilities is the recognition of the City's net pension liability and deferred outflow and inflow of resources related to pensions.		
Deferred outflow related to pensions	2,468,008	
Deferred inflow related to pensions	(161,960)	
Net pension liability	(4,924,274)	
		(2,618,226)
Net position of governmental activities in the statement of net position		$ 43,135,445

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General	Debt Service	Community Development Corporation	Other Governmental	Total Governmental Funds
REVENUES					
Taxes	$ 13,332,805	$ 1,744,375	$ 1,231,754	$ -	$ 16,308,934
Fines and forfeitures	99,082	-	-	-	99,082
Licenses, permits and fees	955,093	-	1,550	960,109	1,916,752
Intergovernmental	117,540	-	-	192,979	310,519
Charges for services	391,627	-	-	-	391,627
Investment earnings	45,804	1,288	2,601	5,093	54,786
Miscellaneous	83,908	-	-	30,540	114,448
Total revenues	15,025,859	1,745,663	1,235,905	1,188,721	19,196,148
EXPENDITURES					
Current:					
General government:					
City manager	516,737	-	-	-	516,737
Finance	1,452,983	-	-	26,587	1,479,570
Human resources	426,924	-	-	-	426,924
City secretary	281,738	-	-	-	281,738
Maintenance	723,202	-	-	-	723,202
Information technology	622,286	-	-	84,672	706,958
Public safety:					
Police	4,143,089	-	-	386,495	4,529,584
Fire	2,416,317	-	-	6,504	2,422,821
Community services	430,163	-	-	-	430,163
Streets and drainage	1,146,792	-	-	442,884	1,589,676
Parks and recreation	1,903,722	-	426,097	297,085	2,626,904
Debt service:					
Principal	121,616	2,055,000	-	-	2,176,616
Interest and other charges	11,581	673,379	-	31,512	716,472
Capital outlay	500,098	-	1,489,738	1,878,738	3,868,574
Total expenditures	14,697,248	2,728,379	1,915,835	3,154,477	22,495,939
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	328,611	(982,716)	(679,930)	(1,965,756)	(3,299,791)
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	7,700,000	-	1,535,000	9,235,000
Payment to escrow agent	-	(7,619,878)	-	-	(7,619,878)
Issuance of capital lease	250,780	-	-	-	250,780
Transfers in	597,446	889,309	-	803,413	2,290,168
Transfers out	(793,943)	-	(917,309)	(108,916)	(1,820,168)
Total other financing sources and uses	54,283	969,431	(917,309)	2,229,497	2,335,902
NET CHANGE IN FUND BALANCES	382,894	(13,285)	(1,597,239)	263,741	(963,889)
FUND BALANCES, BEGINNING	5,073,331	154,343	2,349,085	792,373	8,369,132
FUND BALANCES, ENDING	$ 5,456,225	$ 141,058	$ 751,846	$ 1,056,114	$ 7,405,243

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net change in fund balances - total governmental funds:		$(963,889)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the assets' estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital outlay	3,985,787	
Depreciation expense	(2,829,921)	
		1,155,866
The governmental activities transferred capital assets to the business-type activities. These transfers are not recorded in the governmental funds.		(471,709)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The details of these differences are as follows:		
Property taxes	$ 13,393	
Ambulance fees	89	
Court fines	(28,865)	
Grants	(43,706)	
		(59,089)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while issuing debt increases long-term liabilities in the statement of net position. The repayment of the principal portion of bonds, capital leases and tax notes is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
Payments on bonds	2,055,000	
Payments on capital lease	121,616	
Issuance of capital lease	(250,780)	
Issuance of refunding bonds and tax notes	(9,235,000)	
Payment to escrow agent	7,619,878	
		310,714
Certain pension expenditures are not expended in the government-wide financial statements and recorded as deferred resource outflows. This item relates to contributions made after the measurement date. Additionally, a portion of the City's unrecognized deferred resource outflows and inflows related to the pension liability were amortized.		(392,311)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(5,336)	
Retainage payable	(137,811)	
Accrued interest	8,343	
Amortization of deferred loss of refunding bonds	(38,796)	
Amortization of premium on bond issuances	47,610	
		(125,990)
Change in net position of governmental activities		$(546,408)

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF NET POSITION

ENTERPRISE - WATER AND WASTEWATER FUND

SEPTEMBER 30, 2016

(With Comparative Totals as of September 30, 2015)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 803,612	$ 1,791,694
Accounts receivable, net	1,475,871	1,749,493
Other receivables	5,482	9,307
Inventories	217,356	187,610
Prepaid items	4,565	4,565
Restricted cash and investments:		
Reserve bond debt service	559,848	559,138
Capital improvements	897,057	2,383,548
Construction	883,399	859,804
Customer deposits	261,818	260,393
Total current assets	5,109,008	7,805,552
Non-current assets:		
Capital assets:		
Nondepreciable capital assets	1,010,670	2,580,988
Depreciable capital assets, net of accumulated depreciation	16,671,765	13,792,811
Total capital assets	17,682,435	16,373,799
Total non-current assets	17,682,435	16,373,799
Total assets	22,791,443	24,179,351
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	131,831	165,408
Deferred outflows related to pensions	304,723	135,209
Total deferred outflows of resources	436,554	300,617
LIABILITIES		
Current liabilities:		
Accounts payable	479,991	1,380,055
Accrued expenses	69,482	102,529
Accrued interest	49,003	51,694
Retainage payable	63,288	106,185
Customer deposits	261,818	260,393
Current portion of long-term obligations	1,026,781	1,007,684
Total current liabilities	1,950,363	2,908,540
Non-current liabilities:		
Noncurrent portion of long-term obligations	11,605,742	12,361,277
Total non-current liabilities	11,605,742	12,361,277
Total liabilities	13,556,105	15,269,817
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	19,997	985
Total deferred inflows of resources	19,997	985
NET POSITION		
Net investment in capital assets	6,738,242	5,519,051
Restricted for capital projects	883,399	859,804
Unrestricted	2,030,254	2,830,311
Total net position	$ 9,651,895	$ 9,209,166

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

(With Comparative Totals For the Year Ended September 30, 2015)

	2016	2015
REVENUES		
Charges for services	$ 8,011,036	$ 7,888,614
Total operating revenues	8,011,036	7,888,614
OPERATING EXPENSES		
Administration	311,551	506,842
Maintenance and operations	6,489,572	6,459,838
Depreciation	1,170,236	1,135,896
Total operating expenses	7,971,359	8,102,576
OPERATING INCOME (LOSS)	39,677	(213,962)
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	19,201	17,104
Loss on disposal of capital assets	(128,296)	-
Interest expense	(401,170)	(422,582)
Total non-operating revenues (expenses)	(510,265)	(405,478)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(470,588)	(619,440)
CAPITAL CONTRIBUTIONS	1,383,317	104,191
TRANSFERS OUT	(470,000)	(300,000)
CHANGE IN NET POSITION	442,729	(815,249)
TOTAL NET POSITION, BEGINNING	9,209,166	10,322,258
CHANGE IN ACCOUNTING PRINCIPLE	-	(297,843)
TOTAL NET POSITION, BEGINNING AS RESTATED	9,209,166	10,024,415
TOTAL NET POSITION, ENDING	$ 9,651,895	$ 9,209,166

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF CASH FLOWS

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

(With Comparative Totals For the Year Ended September 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	$ 8,289,908	$ 7,713,815
Cash paid to suppliers for goods and services	(5,814,594)	(5,234,781)
Cash paid to employees for services	(1,451,652)	(1,443,422)
Net cash provided by operating activities	1,023,662	1,035,612
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(470,000)	(300,000)
Net cash used for noncapital financing activities	(470,000)	(300,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	-	1,262
Acquisition of capital assets	(1,956,678)	(2,583,174)
Principal paid on bonds	(880,000)	(860,000)
Capital contributions	219,563	104,191
Interest and other charges paid on debt	(404,591)	(425,966)
Net cash provided (used) by capital and related financing activities	(3,021,706)	(3,763,687)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	19,201	17,104
Net cash provided by investing activities	19,201	17,104
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,448,843)	(3,010,971)
CASH AND CASH EQUIVALENTS, BEGINNING	5,854,577	8,771,101
CASH AND CASH EQUIVALENTS, ENDING (Including $2,602,122 and $4,062,883 reported as restricted cash and investments)	$ 3,405,734	$ 5,760,130

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF CASH FLOWS

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

(With Comparative Totals For the Year Ended September 30, 2015)

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 39,677	$(213,962)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,170,236	1,135,896
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Decrease (increase) in assets and deferred outflows:		
Customer receivable	273,622	(173,988)
Other receivables	3,825	(736)
Inventories	(29,746)	15,482
Deferred outflow related to pensions	(169,514)	(44,254)
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable	(429,697)	270,445
Accrued liabilities	(33,047)	4,726
Customer deposits	1,425	(75)
Compensated absences	(4,384)	8,345
Net pension liability	182,253	32,748
Deferred inflow related to pensions	19,012	985
Net cash provided by operating activities	$ 1,023,662	$ 1,035,612
Schedule of non-cash capital and related financing activities:		
Donation of capital assets	$ 692,045	$ -
Capital asset transfers from governmental funds	471,709	-
Total	$ 1,163,754	$ -

The accompanying notes are an integral part of these financial statements.

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1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City of Highland Village adopted a Home Rule Charter in April 1985, and operates under a Council-Manager form of government. All powers of the City are vested in an elected Council, which enacts local legislation, adopts budgets, determines policies and appoints the City Manager. The City Manager is responsible for executing the laws and administering the government of the City. The City Council consists of seven members, a mayor and six Councilpersons elected by the City's residents.

The City's Comprehensive Annual Financial Report presents the financial position, changes in financial position and cash flows where applicable of the City. The reporting entity is the primary government and those component units for which the primary government is financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

City of Highland Village voters, in November 2004, approved, in a special election, the creation of the Highland Village Community Development Corporation. The Corporation was formed for the purpose of funding public parks, recreation, and projects from revenues derived from a one-half cent sales tax within the City of Highland Village. The City Council appoints a board and board members are removable by the City Council, for cause or at will. Four out of seven board members are on City Council. In the event of dissolution title of all the assets transfer to the City. The operational responsibility of the Community Development Corporation is managed essentially the same manner as other City programs and activities. The Community Development Corporation is reported as a Special Revenue Fund. Financial statement information can be obtained by contacting the Highland Village Community Development Corporation, 1000 Highland Village Rd., Highland Village, Texas 75077.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments, are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – is the operating fund of the City. It is utilized to account for all financial resources except those required to be accounted for in other funds.

Debt Service Fund – is utilized to account for the accumulation of financial resources for, and the payment of general long-term debt principal, interest, and related costs arising from general obligation bonds.

Community Development Corporation – is utilized to account for the use of 4B sales tax revenues that must be used in compliance with statutory restrictions set forth by the state legislature.

The City reports the following major proprietary fund:

Enterprise – Water and Wastewater Fund – is used to account for the water and wastewater operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City is that costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include administration, maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, Deferred Inflows/Outflows of Resources, Liabilities, and Net Position or Fund Balance

Cash and Investments

For the purposes of the statement of cash flows, cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less.

Investments for the City are reported at fair value, except for the position in investment pools. The City's investment in pools are 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined financial statements as cash and investments or restricted cash and investments. The City's cash and investments are considered as cash equivalents as they can be readily converted to cash at their carrying value.

Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All trade receivables are shown net of allowance for uncollectible accounts based on an analysis of historical trends.

Property Taxes

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of levy, on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available. Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City's availability period is 60 days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

Current taxes are due on October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. On January 1 of each year, a tax lien attaches to property to secure all taxes, penalties and interest ultimately imposed.

Unbilled Services

Utility operating revenues (water, sewer and refuse collection) are billed on monthly cycles. Customers are billed for periods ending the 15th of each month on the last day of the month. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "reserve bond debt service" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments. The "construction funds" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction.

Impact fees collected from developers to cover, in whole or in part, the anticipated costs of improvements that will be necessary as a result of the development are set aside in the "capital improvements" account.

Deposits collected from utility customers are set aside until repayment.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets within an initial, individual cost of more than $5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or an estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation expense is calculated principally on the straight-line method. Depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. Estimated useful lives of major categories of property are as follows:

Assets	Years
Infrastructure	40
Buildings	30
Distribution system	20
Machinery and equipment	5 - 10

Accrued Vacation

It is the City's policy to grant employees vacation leave earned at the rate of 10 days a year for at least one but less than 5 years continuous service, 15 days for at least 5 but less than 10 years continuous service, and 20 days for at least 10 years continuous service. Upon termination, the employee shall be paid at the hourly rate of pay such employee was earning on the effective date of termination.

The City also grants employees sick leave earned at the rate of 12 days a year. Upon termination, employees are paid for one-half of the actual number of days earned up to a maximum of 45 days. Obligations under compensated absence arrangements are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City utilizes the last-in first-out method of recognizing the use of compensated absences. Thus, unless it is anticipated that compensated absences of governmental fund types will be used/paid in excess of a normal year's accumulation, no amount is classified as current.

Long-term Obligations

In the government-wide financial statements and the proprietary fund in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

- Changes in economic and demographic actuarial assumptions or of other inputs included in determining the pension liability – these effects on the total pension liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active or inactive employees).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, municipal court fines, ambulance, and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City also has one type of this item that is recorded under the full accrual basis of accounting. It is the difference in expected and actual pension experience. This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by Ordinance of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed.

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council. The City does not have assigned fund balance at year-end.

- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of debt related to capital assets and accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data and Reclassifications

Comparative total data for the prior year is presented only for the Enterprise Fund in the fund financial statements in order to provide an understanding of changes in the financial position and operations of this fund. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Deposits and investments are made in accordance with the provisions of the bank depository agreement or in any negotiable instrument the Council has authorized under the City's approved investment policy and the provisions of the Public Funds Investment Act of 1987, as amended. Deposits and investments may be made with or through the following institutions:

a. Federally insured banks domiciled in the State of Texas; and

b. Primary or regional brokers or security dealers that qualify under Securities and Exchange Commission Rule 15C 3-1.

City funds may be invested in the following:

a. Obligations of the United States or its agencies and instrumentalities;

b. Direct obligations of the State of Texas or its agencies;

c. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States;

d. Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.

e. Certificates of deposit issued by state and national banks domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successors or secured with collateral.

f. Fully collateralized direct repurchase agreements having a defined termination date, secured by approved obligations, pledged with a third party selected or approved by the political entity, and placed through a primary government securities dealer, as domiciled in this state; or a public fund investment pool.

In addition to investment in obligations, certificates or agreements described above, City bond proceeds may be invested in common trust funds or comparable investment devices owned or administered by banks domiciled in Texas.

The City's investment policies are governed by state statutes and City ordinance. Collateral is required for all deposits and investments not covered by federal deposit insurance in accordance with the Public Funds Collateral Act.

The City’s cash deposits in the bank on September 30, 2016, were covered by federal depository insurance or by collateral held by the City’s agent in the City’s name.

Investments held at year-end are as follows:

	Carrying Value	Weighted Average Maturity (Days)
TexPool	$ 2,135,645	44
TexStar	1,612,001	43
Total investments	$ 3,747,646	

Cash and investments are reported as restricted assets as required by debt issues and City ordinance. The monies in government investment pools represent investments in TexPool and TexStar, investment pools for state and local governments in Texas. The State Comptroller of Public Accounts exercises oversight responsibilities over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

J.P. Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexStar under an agreement with the TexStar board of directors. JPMFAM provides investment service and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by J.P. Morgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. TexStar bylaws provide for a five-member board of directors consisting of three representatives of participants and one member designated by each of the co-administrators.

Both TexPool and TexStar are rated AAAm by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investments are with TexPool and TexStar with maturities of less than one year.

Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All investment pools' policies require a rating of AA or better from a nationally recognized rating agency.

Concentration of Credit Risk. The City's investments are issued or explicitly guaranteed by external investment pools, which are not considered to provide a concentration of credit risk.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local government entities by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least the bank balances less FDIC insurance at all times.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor governmental funds, including the applicable allowance for estimated uncollectible accounts, are as follows:

	General	Debt Service	Community Development Corporation	Nonmajor Governmental	Enterprise	Total
Receivables:						
Taxes	$ 984,545	$ 13,835	$ 202,983	$ -	$ -	$ 1,201,363
Accounts	625,824	-	200	-	1,371,582	1,997,606
Unbilled	-	-	-	-	432,419	432,419
Other	-	-	-	25,156	5,482	30,638
Intergovernmental	-	-	-	46,695	-	46,695
Gross receivables	1,610,369	13,835	203,183	71,851	1,809,483	3,708,721
Less: allowance for uncollectibles	542,427	-	-	-	328,130	870,557
Net total receivables	$ 1,067,942	$ 13,835	$ 203,183	$ 71,851	$ 1,481,353	$ 2,838,164

At the end of the current fiscal year, the various components of *unearned revenue* reported in the governmental funds were as follows:

General fund:	
Franchise taxes	$ 4,165
Grants	29,809
Park fees	3,838
Total general fund	37,812
Community development corporation:	
Park fees	840
Total community development corporation	840
Nonmajor governmental fund:	
Grants	191,110
Parks fees	37,331
Total nonmajor governmental fund	228,441
Total governmental funds	$ 267,093

C. Interfund Transfers

The following is a summary of transfers:

	Transfers in			
Transfers out	General	Debt Service	Nonmajor Governmental	Total
General	$ -	$ -	$ 793,943	$ 793,943
Community Development Corporation	28,000	889,309	-	917,309
Nonmajor governmental	99,446	-	9,470	108,916
Water and wastewater	470,000	-	-	470,000
	$ 597,446	$ 889,309	$ 803,413	$ 2,290,168

The purpose of transfers is as follows:

- The transfers to non-major governmental funds was for a drainage fee associated with imperious square footage of public buildings, a supplement to fund the Sellmeyer capital project, and a supplement to fund the unity dog park capital project.

- The transfer from the Community Development Corporation Fund to the Debt Service Fund is a for debt service payments made on behalf of the HVCDC.

- The transfer from Community Development Corporation Fund to the General Fund is an overhead allocation support services.

- The transfer from the Water and Wastewater Fund to the General Fund represents an overhead allocation for support services.

D. Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 17,183,848	$ -	$ -	$ 17,183,848
Construction in progress	8,254,557	3,605,044	(7,855,725)	4,003,876
Total assets not being depreciated	25,438,405	3,605,044	(7,855,725)	21,187,724
Capital assets, being depreciated:				
Land improvements	15,880,333	-	5,955,056	21,835,389
Buildings and improvements	13,691,476	-	877,541	14,569,017
Equipment	7,299,949	380,743	19,680	7,700,372
Infrastructure	40,472,559	-	531,739	41,004,298
Intangibles	196,594	-	-	196,594
Total capital assets being depreciated	77,540,911	380,743	7,384,016	85,305,670
Less accumulated depreciation:				
Land improvements	5,765,285	715,424	-	6,480,709
Buildings and improvements	6,892,003	665,573	-	7,557,576
Equipment	5,255,393	442,499	-	5,697,892
Infrastructure	21,766,769	990,283	-	22,757,052
Intangibles	161,262	16,142	-	177,404
Total accumulated depreciation	39,840,712	2,829,921	-	42,670,633
Total capital assets being depreciated, net	37,700,199	(2,449,178)	7,384,016	42,635,037
Governmental activities capital assets, net	$ 63,138,604	$ 1,155,866	$(471,709)	$ 63,822,761

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 75,713	$ -	$ -	$ 75,713
Construction in progress	2,505,275	1,422,665	(2,992,983)	934,957
Total assets not being depreciated	2,580,988	1,422,665	(2,992,983)	1,010,670
Capital assets, being depreciated:				
Buildings	1,469,617	-	-	1,469,617
Improvements other than buildings	30,089,186	692,045	2,594,401	33,375,632
Equipment	1,633,534	20,749	-	1,654,283
Infrastructure	617,553	-	-	617,553
Intangibles	81,737	-	-	81,737
Total capital assets being depreciated	33,891,626	712,794	2,594,401	37,198,821
Less accumulated depreciation:				
Buildings	320,147	71,921	-	392,068
Improvements other than buildings	17,756,716	1,040,817	(741,995)	18,055,538
Equipment	1,352,007	52,463	-	1,404,470
Infrastructure	605,876	615	-	606,491
Intangibles	64,069	4,420	-	68,489
Total accumulated depreciation	20,098,815	1,170,236	(741,995)	20,527,056
Total capital assets being depreciated, net	13,792,811	(457,442)	3,336,396	16,671,765
Business-type activities capital assets, net	$ 16,373,799	$ 965,223	$ 343,413	$ 17,682,435

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
City manager	$ 18,650
Finance	57,350
Human resources	9,046
City secretary	30,748
Information Services	14,623
Maintenance	58,168
Community services	10,809
Police	242,189
Fire	354,667
Streets and drainage	1,182,273
Park and recreation	851,398
Total depreciation expense - governmental activities	$ 2,829,921
Business-type activities:	
Water and wastewater	$ 1,170,236
Total depreciation expense - business-type activities	$ 1,170,236

E. Construction Commitments

The City has active construction projects as of September 30, 2016. At year-end the City's commitments with contractors are as follows:

Projects	Spent to Date	Remaining Commitment
Governmental activities:		
Highland Village Rd. Phase II-A – Engineering only	$ 8,250	$ 16,750
Doubletree Ranch Park	9,462,483	100,090
Sellmeyer Lane Improvements	745,694	28,753
Canyon Creek Drainage Improvements	25,920	264,452
Unity Dog Park	217,909	67,006
ICS CAD/RMS Software	341,095	45,653
Dispatch and Radio System	264,479	108,386
Boat Dock Extension at Pilot Knoll	17,320	22,375
Business activities:		
Spruce Drive Water Line Replacement – Engineering only	$ 4,135	$ 565
Highland Village Rd Water Line Phase II	802,090	109,975
12" Water Line Northwest of City – Engineering only	20,461	103,339
KCS Railroad Sewer Line – Engineering only	16,896	6,450
Sellmeyer Lane Improvements	83,125	3,195
Winding Creek Oak Forest Water Line – Engineering only	8,250	40,450

F. Long-term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
General obligation refunding and improvement bonds	3.50 - 4.00	2008	2028	5,000,000	$ 475,000
General obligation refunding and improvement bonds	2.00 - 4.00	2011	2022	4,070,000	1,460,000
General obligation refunding and improvement bonds	2.04	2015	2028	7,700,000	7,500,000
					9,435,000
Business-type activities:					
General obligation refunding bonds	2.00 - 4.00	2011	2022	1,055,000	110,000
General obligation refunding bonds	2.00 - 3.00	2012	2024	4,565,000	2,780,000
					2,890,000
					$ 12,325,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	$ 1,170,000	$ 209,210	$ 640,000	$ 74,725
2018	815,000	180,518	295,000	63,075
2019	830,000	158,116	305,000	54,075
2020	855,000	136,960	310,000	44,850
2021	875,000	115,198	320,000	35,400
2022-2026	3,870,000	289,029	1,020,000	46,500
2027-2031	1,020,000	17,748	-	-
Total	$ 9,435,000	$ 1,106,779	$ 2,890,000	$ 318,625

Combination Tax and Revenue Certificates of Obligation

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Combination tax and revenue certificates of obligation have been issued for both governmental and business-type activities. Combination tax and revenue certificates of obligation outstanding at year-end are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
Combination tax and revenue certificates of obligation	3.50 - 4.00	2008	2028	3,000,000	$ 700,000
Combination tax and revenue certificates of obligation	3.00 - 4.50	2009	2029	3,830,000	2,300,000
Combination tax and revenue certificates of obligation	2.00 - 3.50	2012	2032	2,795,000	2,535,000
Combination tax and revenue certificates of obligation	2.00 - 4.00	2014	2034	7,020,000	7,000,000
					12,535,000
Business-type activities:					
Combination tax and revenue certificates of obligation	3.50 - 4.00	2008	2028	1,500,000	1,050,000
Combination tax and revenue certificates of obligation	3.00 - 4.50	2009	2029	4,365,000	3,210,000
Combination tax and revenue certificates of obligation	2.00 - 4.00	2013	2034	4,540,000	4,540,000
					8,800,000
					$ 21,335,000

Combination tax and revenue certificates of obligation debt service requirements to maturity are as follows:

Year Ending	Governmental Activities		Business-type Activities	
September 30,	Principal	Interest	Principal	Interest
2017	$ 730,000	$ 377,844	$ 265,000	$ 305,925
2018	760,000	354,494	485,000	294,900
2019	760,000	332,006	500,000	280,738
2020	785,000	310,406	520,000	265,300
2021	805,000	287,431	530,000	248,800
2022-2026	3,730,000	1,077,153	2,950,000	954,274
2027-2031	3,185,000	591,083	2,560,000	375,043
2032-2036	1,780,000	93,591	990,000	56,270
Total	$ 12,535,000	$ 3,424,008	$ 8,800,000	$ 2,781,250

Tax Notes

The City also issues tax notes for the purpose of paying contractual obligations to be incurred for the acquisition of equipment and construction of certain land improvements. The tax notes are payable from proceeds of ad valorem tax levied upon all taxable property in the City. Tax notes currently outstanding at year-end are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
Tax Note	1.590 %	2015	2022	$ 1,535,000	$ 1,535,000
					$ 1,535,000

Tax Notes debt service requirements to maturity are as follows:

Year Ending	Governmental Activities	
September 30,	Principal	Interest
2017	$ 115,000	$ 38,746
2018	275,000	20,392
2019	280,000	15,980
2020	285,000	11,488
2021	290,000	6,917
2022-2026	290,000	2,306
Total	$ 1,535,000	$ 95,829

Capital Lease Obligation

The City has entered into lease agreements as a lessee for financing the acquisition of a fire truck and ambulance. The fire truck has a useful life of fifteen years and was purchased for a total cost of $633,506 and as of September 30, 2016, $49,749 of accumulated depreciation has been recorded for this fire truck. As of September 30, 2016, the City had not taken possession of the ambulance and this asset has not been included in the City's capital assets.

The future minimum lease obligations and the net present value of these lease payments as of September 30, 2016, were as follows:

Year Ending September 30,	Governmental Activities
2017	$ 262,266
2018	262,266
2019	133,197
Total minimum lease payments	657,729
Less: amount representing interest	(25,059)
Present value of minimum lease payments	$ 632,670

Refunding Bonds

On December 30, 2015, the City issued $7,700,000 in general obligation refunding bonds with interest rates ranging from 2.0% to 4.00%. These bonds refunded a portion of the General Obligation Bonds, Series 2008, the Combination Tax and Revenue Certificates of Obligation, Series 2006, and the General Obligation Refunding and Improvement Bonds, Series 2006, which had interest rates ranging from 4.00% to 4.25%. The net proceeds of $7,619,878 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the refunded obligations were considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $166,265. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The City advance refunded the General Obligation Bonds, Series 2008, the Combination Tax and Revenue Certificates of Obligation, Series 2006, and the General Obligation Refunding and Improvement Bonds, Series 2006, to reduce its total debt service payments over 13 years by $787,884 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $715,863.

G. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligations	$ 9,545,000	$ 7,700,000	$ 7,810,000	$ 9,435,000	$ 1,170,000
Combination tax and revenue CO	14,150,000	-	1,615,000	12,535,000	730,000
Tax note	-	1,535,000	-	1,535,000	115,000
Issuance premium	393,023	-	131,223	261,800	43,594
Total bonds payable	24,088,023	9,235,000	9,556,223	23,766,800	2,058,594
Capital lease obligation	503,506	250,780	121,616	632,670	248,592
Net pension liability	3,250,801	2,730,546	1,057,073	4,924,274	-
Compensated absences	973,484	773,310	767,974	978,820	772,184
Governmental activities long-term liabilities	$ 28,815,814	$ 12,989,636	$ 11,502,886	$ 30,302,564	$ 3,079,370

The General Fund has typically been used to liquidate governmental activities compensated absences and net pension liability.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 3,515,000	$ -	$ 625,000	$ 2,890,000	$ 640,000
Combination tax and revenue CO	9,055,000	-	255,000	8,800,000	265,000
Issuance premium	254,100	-	34,307	219,793	31,414
Total bonds payable	12,824,100	-	914,307	11,909,793	936,414
Net pension liability	425,743	312,769	130,516	607,996	-
Compensated absences	119,118	89,436	93,820	114,734	90,367
Business-type activities long-term liabilities	$ 13,368,961	$ 402,205	$ 1,138,643	$ 12,632,523	$ 1,026,781

H. Retirement Plan

Plan Descriptions. The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com*.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided. TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City has approved an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated Service Credit	100% repeating
Annuity increase to retirees	70% of CPI repeating

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	54
Inactive employees entitled to but not yet receiving benefits	100
Active employees	148
	302

Contributions. The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.29% and 13.20% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were $1,258,570 and were equal to the required contributions.

Net Pension Liability. The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7.0% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS. The target allocation and best estimates of arithmetic real rates return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statue. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	$ 30,672,196	$ 26,995,652	$ 3,676,544
Changes for the year:			
Service cost	1,535,928	-	1,535,928
Interest	2,177,527	-	2,177,527
Difference between expected and actual experience	(226,332)	-	(226,332)
Changes of assumptions	196,596	-	196,596
Contributions - employer	-	1,187,926	(1,187,926)
Contributions - employee	-	625,694	(625,694)
Net investment income	-	39,833	(39,833)
Benefit payments, including refunds of employee contributions	(665,253)	(665,253)	-
Administrative expense	-	(24,263)	24,263
Other changes	-	(1,197)	1,197
Net changes	3,018,466	1,162,740	1,855,726
Balance at 12/31/2015	$ 33,690,662	$ 28,158,392	$ 5,532,270

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) of 1-percentage-higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 11,040,205	$ 5,532,270	$ 1,077,258

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at *www.tmrs.com*.

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions. For the year ended September 30, 2016, the City recognized pension expense of $1,647,272.

At September 30, 2016, the City reported deferred outflows and inflows related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 181,957
Changes in actuarial assumptions	152,811	-
Difference between projected and actual investment earnings	1,668,488	-
Contributions subsequent to the measurement date	951,432	-
Totals	$ 2,772,731	$ 181,957

$951,432 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	
2017	$ 423,745
2018	423,745
2019	425,124
2020	366,727
Total	$ 1,639,341

I. Other Post Employee Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the fiscal year ended 2016, 2015, and 2014 were $15,478, $14,339, and $11,661, respectively, which equaled the required contributions each year.

J. Commitments and Contingencies

Upper Trinity Regional Water District ("UTRWD")

The City of Highland Village entered into a contract with the Upper Trinity Regional Water District Lakeview Regional Water Reclamation System (sewer plant), in June 1995, to meet its long-term wastewater treatment needs. The UTRWD has issued a series of bonds to provide for capital funding for the expansion and refurbishment of the Lakeview Sewer Plant and to construct the regional sewer system with all of said bonds to be payable from and secured by annual payments made by participating members. In fiscal year 2016, the City's subscribed capacity in the regional system was 1.65 million gallons per day (MGD). The City paid fixed operations and maintenance cost of $174,250/MGD, $914,770/MGD for joint facilities and $332,385 for facilities specific to the Highland Village. The volume rate for treatment (including transportation charge) was $1.50/1,000 gallons.

In fiscal year 2016 the City had a commitment with the UTRWD to take 3 million gallons per day (MGD) of treated water. The volume charge was $1.09/1,000 gallons, with an annual demand charge of $398,000/MGD.

For fiscal year 2017, the City's subscribed capacity in the regional system is 1.65 million gallons per day (MGD). The City is committed to pay fixed operations and maintenance cost of $392,200/MGD, facility charges of $682,465 for joint facilities, and $288,670 annually for facilities specific to the Highland Village. The volume rate for treatment (including transportation charge) is $1.25/1,000 gallons.

In fiscal year 2017, the City has a commitment with the UTRWD to take 3 million gallons per day (MGD) of treated water. The volume charge is $1.11/1,000 gallons, with an annual demand charge of $411,500/MGD.

Encumbrances

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget. At year end the amount of encumbrances expected to be honored in the next year were as follows:

Fund	Amount
General	$ 955,355
Capital projects	233,993
Community Development Corporation	196,515
Other governmental	105,660
Total	$ 1,491,523

Lawsuits

The City has been named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Risk Management

The City is exposed to various risks or loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's general liability and property coverage is insured by the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool. The City's only responsibility to the Fund is to pay premiums for insurance and related deductible amounts of these policies. Other risk of loss is covered by commercial insurance. Settlements of claims have not exceeded coverage in the past three years.

K. Subsequent Events

On February 23, 2017, the City issued $6,485,000 of Series 2017 General Obligation Refunding Bonds to refund $1,335,000 of Combination Tax and Revenue Certificates of Obligation, Series 2008 and $5,065,000 of Combination Tax and Revenue Certificates of Obligation, Series 2009. The interest rate on the refunding bonds is 2.275% and the final maturity date is February 15, 2029.

REQUIRED
SUPPLEMENTARY INFORMATION

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CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Taxes	$ 13,672,777	$ 13,672,777	$ 13,332,805	$(339,972)
Fines and forfeitures	117,300	117,300	99,082	(18,218)
Licenses, permits and fees	686,744	686,744	955,093	268,349
Intergovernmental	-	-	117,540	117,540
Charges for services	465,881	465,881	391,627	(74,254)
Investment earnings	32,000	32,000	45,804	13,804
Miscellaneous	134,150	134,150	83,908	(50,242)
Total revenues	15,108,852	15,108,852	15,025,859	(82,993)
EXPENDITURES				
Current:				
General government:				
City manager:				
Personnel	370,228	380,228	380,870	(642)
Services and supplies	193,328	193,328	135,867	57,461
Total city manager	563,556	573,556	516,737	56,819
Finance:				
Personnel	964,415	1,004,415	969,381	35,034
Services and supplies	518,149	523,149	483,602	39,547
Total finance	1,482,564	1,527,564	1,452,983	74,581
Human resources:				
Personnel	383,576	383,576	359,552	24,024
Services and supplies	93,808	98,808	67,372	31,436
Total human resources	477,384	482,384	426,924	55,460
City secretary:				
Personnel	177,815	187,815	183,951	3,864
Services and supplies	121,710	121,710	97,787	23,923
Total city secretary	299,525	309,525	281,738	27,787
Information technology:				
Personnel	525,691	445,691	383,800	61,891
Services and supplies	294,702	304,702	238,486	66,216
Capital outlay	62,000	112,000	109,674	2,326
Total information technology	882,393	862,393	731,960	130,433
Maintenance:				
Personnel	299,926	299,926	294,605	5,321
Services and supplies	565,889	505,889	428,597	77,292
Capital outlay	31,000	31,000	23,000	8,000
Total maintenance	896,815	836,815	746,202	90,613

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Public safety:				
Police:				
Personnel	$ 3,947,596	$ 3,877,596	$ 3,798,946	$ 78,650
Services and supplies	350,307	420,307	344,143	76,164
Capital outlay	50,000	50,000	35,750	14,250
Total police	4,347,903	4,347,903	4,178,839	169,064
Fire:				
Personnel	2,154,503	2,154,503	2,065,592	88,911
Services and supplies	342,220	357,220	350,725	6,495
Capital outlay	118,500	408,500	113,848	294,652
Total fire	2,615,223	2,920,223	2,530,165	390,058
Community services:				
Personnel	383,621	413,621	404,107	9,514
Services and supplies	22,204	28,204	26,056	2,148
Total building operations	405,825	441,825	430,163	11,662
Streets and drainage:				
Personnel	626,021	626,021	615,398	10,623
Services and supplies	1,110,240	1,110,240	531,394	578,846
Capital outlay	45,000	245,000	186,345	58,655
Total streets and drainage	1,781,261	1,981,261	1,333,137	648,124
Parks and recreation:				
Personnel	1,156,514	1,171,514	1,145,176	26,338
Services and supplies	732,562	782,562	758,546	24,016
Capital outlay	50,000	50,000	31,481	18,519
Total parks and recreation	1,939,076	2,004,076	1,935,203	68,873
Debt service:				
Principal	118,419	118,419	121,616	(3,197)
Interest and other charges	11,581	11,581	11,581	-
Total expenditures	15,821,525	16,417,525	14,697,248	1,720,277
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(712,673)	(1,308,673)	328,611	1,637,284
OTHER FINANCING SOURCES (USES)				
Issuance of capital lease	-	-	250,780	250,780
Transfers in	534,000	840,000	597,446	(242,554)
Transfers out	(16,000)	(1,014,000)	(793,943)	220,057
Total other financing sources and uses	518,000	(174,000)	54,283	228,283
NET CHANGE IN FUND BALANCE	(194,673)	(1,482,673)	382,894	1,865,567
FUND BALANCE, BEGINNING	5,073,331	5,073,331	5,073,331	-
FUND BALANCE, ENDING	$ 4,878,658	$ 3,590,658	$ 5,456,225	$ 1,865,567

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)

COMMUNITY DEVELOPMENT CORPORATION

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	$ 1,307,012	$ 1,307,012	$ 1,231,754	$(75,258)
Licenses, permits and fees	-	-	1,550	1,550
Investment earnings	2,500	2,500	2,601	101
Miscellaneous	6,000	6,000	-	(6,000)
Total revenues	1,315,512	1,315,512	1,235,905	(79,607)
EXPENDITURES				
Parks and recreation:				
Personnel	179,823	179,823	164,137	15,686
Services and supplies	168,039	308,039	261,960	46,079
Capital outlay	20,000	2,010,000	1,489,738	520,262
Total expenditures	367,862	2,497,862	1,915,835	582,027
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	947,650	(1,182,350)	(679,930)	502,420
OTHER FINANCING SOURCES (USES)				
Transfer out	(926,117)	(926,117)	(917,309)	(8,808)
Total other financing sources (uses)	(926,117)	(926,117)	(917,309)	(8,808)
NET CHANGE IN FUND BALANCE	21,533	(2,108,467)	(1,597,239)	511,228
FUND BALANCE, BEGINNING	2,349,085	2,349,085	2,349,085	-
FUND BALANCE, ENDING	$ 2,370,618	$ 240,618	$ 751,846	$ 511,228

BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Special Revenue Funds, Debt Service Fund and the Park Development Fund. The Capital Projects Fund is appropriated on a project-length basis.

The appropriated budget is prepared by fund, department and three categories – personnel, services and supplies, and capital outlay. During the fiscal year, each department is responsible to not exceed the amounts budgeted in each of the three categories. Transfers of appropriations between categories or departments require the approval of council. Category subtotals of departmental expenditures thus provide the legal level of budgetary control.

Appropriations in all budgeted funds lapse at the end of the fiscal year. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2016, expenditures exceed appropriation in the following fund, function, department and category.

Fund	Function/Department	Category	Amount
General	General government/City manager	Personnel	$ 642
General	Debt service	Principal	200,000
Public Safety	Public safety/Fire	Services and supplies	6,504
Utility Drainage	Street and drainage	Personnel	11,125

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Plan Year	2014	2015
A. Total pension liability		
Service Cost	$ 1,370,530	$ 1,535,928
Interest (on the Total Pension Liability)	1,983,761	2,177,527
Difference between expected and actual experience	(10,973)	(226,332)
Changes of assumptions	-	196,596
Benefit payments, including refunds of employee contributions	(650,592)	(665,253)
Net change in total pension liability	2,692,726	3,018,466
Total pension liability - beginning	27,979,470	30,672,196
Total pension liability - ending (a)	$ 30,672,196	$ 33,690,662
B. Plan fiduciary net position		
Contributions - employer	$ 1,070,712	$ 1,187,926
Contributions - employee	588,766	625,694
Net investment income	1,407,343	39,833
Benefit payments, including refunds of employee contributions	(650,592)	(665,253)
Administrative expense	(14,690)	(24,263)
Other	(1,208)	(1,197)
Net change in plan fiduciary net position	2,400,331	1,162,740
Plan fiduciary net position - beginning	24,595,321	26,995,652
Plan fiduciary net position - ending (b)	$ 26,995,652	$ 28,158,392
C. Net pension liability - ending (a) - (b)	$ 3,676,544	$ 5,532,270
D. Plan fiduciary net position as a percentage of total pension liability	88.01%	83.58%
E. Covered employee payroll	$ 8,410,947	$ 8,940,209
F. Net position liability as a percentage of covered employee payroll	43.71%	61.88%

Note: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of September 30, 2016, only 2 years are included and additional years will be added in the future as the information becomes available.

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Fiscal Year	2014	2015	2016
Actuarial determined contribution	$ 1,049,673	$ 1,163,130	$ 1,258,570
Contributions in relation to the actuarially determined contribution	1,049,673	1,163,130	1,258,570
Contribution deficiency (excess)	-	-	-
Covered employee payroll	8,329,839	8,859,846	9,517,623
Contributions as a percentage of covered employee payroll	12.60%	13.13%	13.22%

Note: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of September 30, 2016, only 3 years are included and additional years will be added in the future as the information becomes available.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information There were no benefit changes during the year.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Corps Leased Parks Fund – This fund is used to account for the operations of Corp Leased Parks. Park admission and usage fees charged to patrons are committed to finance operations.

Public Safety Fund – This fund accounts for funds received from local, state and federal sources for the purpose of supporting the City's Police and Fire programs.

Municipal Court Building Security Fund – The security building fund provides for the collection of court fees with each fine that is to be utilized for the security of the court. Expenditures are restricted to security systems, bailiffs, metal detectors, locks, electronic identification systems, etc.

Municipal Court Technology Fund – The state legislature has allowed for the creation of a Municipal Court Technology Fund to defray the costs related to technology in the court system. This fund accounts for the collection of technology fees charged to defendants for misdemeanor offences as a cost of court. These funds will be used to purchase software, PCs and any other technology items needed for the court.

Utility Drainage Fund – This fund is used to account for fees collected for the purpose of improving, upgrading and maintaining the City's drainage system. The City is mandated by the Texas Commission on Environmental Quality (TCEQ) to develop and maintain a Storm Water Management Plan in order to address capacity and quality issues and protect its residents and their properties from possible flooding and pollution problems. Drainage fees are collected by residents to fund the activities required to comply TCEQ regulations.

PEG Fee Fund – This fund is used to account for public, educational, and governmental (PEG) fees charged to cable users, which are restricted for the City's PEG channel.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of capital improvements (other than those financed by proprietary funds). Such resources are derived from proceeds of general obligation debt, other sources designated for capital improvements and interest earned on such monies.

Park Development Fund – This fund accounts for development fees charged to property developers, which are committed for development and maintenance of City parks.

Capital Projects Fund – is used typically fund from serial bond proceeds, legally authorized debt instruments issued for specific projects, or funds from settlements or assessments that correspond to capital projects.

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Special Revenue		
	Corps Leased Parks	Public Safety	Municipal Court Building Security
ASSETS			
Cash and investments	$ 499,391	$ 8,105	$ 28,675
Receivables:			
Intergovernmental	8,519	8,359	-
Other	10,684	-	-
Total assets	518,594	16,464	28,675
LIABILITIES			
Accounts payable	34,900	717	-
Accrued liabilities	3,055	-	-
Unearned revenue	228,441	-	-
Total liabilities	266,396	717	-
DEFERRED INFLOWS OF RESOURCES			
Unavailable:			
Grants	-	2,225	-
Total deferred inflows of resources	-	2,225	-
FUND BALANCES			
Restricted for:			
Public safety - law enforcement operations	-	13,522	28,675
Utility drainage operations	-	-	-
Public broadcasting	-	-	-
Capital projects	-	-	-
Committed - park development and maintenance	252,198	-	-
Total fund balances	252,198	13,522	28,675
Total liabilities, deferred inflows of resources, and fund balances	$ 518,594	$ 16,464	$ 28,675

Special Revenue			Capital Projects		Total
Municipal Court Technology	Utility Drainage	PEG Fee	Park Development	Capital Projects	Nonmajor Governmental Funds
$ 36,310	$ 265,668	$ 21,622	$ 96,463	$ 530,224	$ 1,486,458
-	29,817	-	-	-	46,695
-	-	14,472	-	-	25,156
36,310	295,485	36,094	96,463	530,224	1,558,309
12	19,141	-	86,437	91,390	232,597
-	6,060	-	-	-	9,115
-	-	-	-	-	228,441
12	25,201	-	86,437	91,390	470,153
-	29,817	-	-	-	32,042
-	29,817	-	-	-	32,042
36,298	-	-	-	-	78,495
-	240,467	-	-	-	240,467
-	-	36,094	-	-	36,094
-	-	-	-	438,834	438,834
-	-	-	10,026	-	262,224
36,298	240,467	36,094	10,026	438,834	1,056,114
$ 36,310	$ 295,485	$ 36,094	$ 96,463	$ 530,224	$ 1,558,309

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Special Revenue		
	Corps Leased Parks	Public Safety	Municipal Court Building Security
REVENUES			
Licenses, permits and fees	$ 387,899	$ -	$ 2,832
Intergovernmental	152,615	40,364	-
Investment earnings	1,287	-	-
Miscellaneous	-	-	-
Total revenues	541,801	40,364	2,832
EXPENDITURES			
Current:			
General government:			
Finance	-	-	4,264
Information Technology	-	-	-
Public safety:			
Police	-	8,288	-
Fire	-	6,504	-
Community services:			
Streets and drainage Maintenance	-	-	-
Parks and recreation	297,085	-	-
Debt service:			
Bond issuance costs	-	-	-
Capital outlay	41,084	-	-
Total expenditures	338,169	14,792	4,264
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	203,632	25,572	(1,432)
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	-	-
Transfers in	-	-	-
Transfers out	-	(28,446)	-
Total other financing sources and uses	-	(28,446)	-
NET CHANGE IN FUND BALANCES	203,632	(2,874)	(1,432)
FUND BALANCES, BEGINNING	48,566	16,396	30,107
FUND BALANCES, ENDING	$ 252,198	$ 13,522	$ 28,675

Special Revenue			Capital Projects		Total
Municipal Court Technology	Utility Drainage	PEG Fee	Park Development	Capital Projects	Nonmajor Governmental Funds
$ 3,776	$ 486,910	$ 78,008	$ 684	$ -	$ 960,109
-	-	-	-	-	192,979
-	445	-	192	3,169	5,093
-	30,540	-	-	-	30,540
3,776	517,895	78,008	876	3,169	1,188,721
5,133	-	17,190	-	-	26,587
-	-	-	-	84,672	84,672
-	-	-	-	378,207	386,495
-	-	-	-	-	6,504
-	442,884	-	-	-	442,884
-	-	-	-	-	297,085
-	-	-	-	31,512	31,512
-	9,470	-	207,883	1,620,301	1,878,738
5,133	452,354	17,190	207,883	2,114,692	3,154,477
(1,357)	65,541	60,818	(207,007)	(2,111,523)	(1,965,756)
-	-	-	-	1,535,000	1,535,000
-	25,470	-	145,177	632,766	803,413
-	(16,000)	(55,000)	-	(9,470)	(108,916)
-	9,470	(55,000)	145,177	2,158,296	2,229,497
(1,357)	75,011	5,818	(61,830)	46,773	263,741
37,655	165,456	30,276	71,856	392,061	792,373
$ 36,298	$ 240,467	$ 36,094	$ 10,026	$ 438,834	$ 1,056,114

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

DEBT SERVICE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	$ 1,764,216	$ 1,764,216	$ 1,744,375	$(19,841)
Investment earnings	300	300	1,288	988
Total revenues	1,764,516	1,764,516	1,745,663	(18,853)
EXPENDITURES				
Debt service:				
Principal	1,855,000	1,855,000	2,055,000	(200,000)
Interest and other charges	800,333	800,333	673,379	126,954
Total expenditures	2,655,333	2,655,333	2,728,379	(73,046)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(890,817)	(890,817)	(982,716)	(91,899)
OTHER FINANCING SOURCES (USES)				
Issuance of bonds	-	-	7,700,000	(7,700,000)
Payment to escrow agent	-	-	(7,619,878)	7,619,878
Transfers in	898,117	898,117	889,309	8,808
Total other financing sources and uses	898,117	898,117	969,431	(71,314)
NET CHANGE IN FUND BALANCE	7,300	7,300	(13,285)	(20,585)
FUND BALANCE, BEGINNING	154,343	154,343	154,343	-
FUND BALANCE, ENDING	$ 161,643	$ 161,643	$ 141,058	$(20,585)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

CORPS LEASED PARKS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 246,275	$ 246,275	$ 387,899	$ 141,624
Intergovernmental	125,000	125,000	152,615	27,615
Investment earnings	1,500	1,500	1,287	(213)
Total revenues	372,775	372,775	541,801	169,026
EXPENDITURES				
Parks and recreation:				
Personnel	217,904	217,904	190,343	27,561
Services and supplies	119,374	121,074	106,742	14,332
Capital outlay	34,000	62,000	41,084	20,916
Total expenditures	371,278	400,978	338,169	62,809
NET CHANGE IN FUND BALANCE	1,497	(28,203)	203,632	231,835
FUND BALANCE, BEGINNING	48,566	48,566	48,566	-
FUND BALANCE, ENDING	$ 50,063	$ 20,363	$ 252,198	$ 231,835

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PUBLIC SAFETY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	$ 25,600	$ 89,600	$ 40,364	$(49,236)
Total revenues	25,600	89,600	40,364	(49,236)
EXPENDITURES				
Public safety:				
Police:				
Services and supplies	3,600	32,600	8,288	24,312
Fire:				
Services and supplies	-	-	6,504	(6,504)
Capital outlay	-	35,000	-	35,000
Total expenditures	3,600	67,600	14,792	52,808
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	22,000	22,000	25,572	3,572
OTHER FINANCING SOURCES (USES)				
Transfer out	(22,000)	(24,000)	(28,446)	(4,446)
Total other financing sources (uses)	(22,000)	(24,000)	(28,446)	(4,446)
NET CHANGE IN FUND BALANCE	-	(2,000)	(2,874)	(874)
FUND BALANCE, BEGINNING	16,396	16,396	16,396	-
FUND BALANCE, ENDING	$ 16,396	$ 14,396	$ 13,522	$(874)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MUNICIPAL COURT BUILDING SECURITY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 4,100	$ 4,100	$ 2,832	$(1,268)
Total revenues	4,100	4,100	2,832	(1,268)
EXPENDITURES				
General government:				
Finance:				
Personnel	3,000	3,000	285	2,715
Services and supplies	5,000	5,000	3,979	1,021
Total expenditures	8,000	8,000	4,264	3,736
NET CHANGE IN FUND BALANCE	(3,900)	(3,900)	(1,432)	2,468
FUND BALANCE, BEGINNING	30,107	30,107	30,107	-
FUND BALANCE, ENDING	$ 26,207	$ 26,207	$ 28,675	$ 2,468

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MUNICIPAL COURT TECHNOLOGY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 5,500	$ 5,500	$ 3,776	$(1,724)
Total revenues	5,500	5,500	3,776	(1,724)
EXPENDITURES				
General government:				
Finance:				
Services and supplies	5,500	5,500	5,133	367
Total expenditures	5,500	5,500	5,133	367
NET CHANGE IN FUND BALANCE	-	-	(1,357)	(1,357)
FUND BALANCE, BEGINNING	37,655	37,655	37,655	-
FUND BALANCE, ENDING	$ 37,655	$ 37,655	$ 36,298	$(1,357)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

UTILITY DRAINAGE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 480,000	$ 480,000	$ 486,910	$ 6,910
Investment earnings	75	75	445	370
Miscellaneous	-	105,000	30,540	(74,460)
Total revenues	480,075	585,075	517,895	(67,180)
EXPENDITURES				
Street and drainage:				
Personnel	315,995	315,994	327,119	(11,125)
Services and supplies	147,033	147,033	115,765	31,268
Capital outlay	-	280,000	9,470	270,530
Total expenditures	463,028	743,027	452,354	290,673
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	17,047	(157,952)	65,541	223,493
OTHER FINANCING SOURCES (USES)				
Transfers in	16,000	166,000	25,470	(140,530)
Transfers out	(16,000)	(16,000)	(16,000)	-
Total other financing sources (uses)	-	150,000	9,470	(140,530)
NET CHANGE IN FUND BALANCE	17,047	(7,952)	75,011	82,963
FUND BALANCE, BEGINNING	165,456	165,456	165,456	-
FUND BALANCE, ENDING	$ 182,503	$ 157,504	$ 240,467	$ 82,963

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PEG FEE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
PEG fees	$ 65,000	$ 65,000	$ 78,008	$ 13,008
Total revenues	65,000	65,000	78,008	13,008
EXPENDITURES				
General government:				
Services and supplies	19,500	19,500	17,190	2,310
Capital outlay	48,500	48,500	-	48,500
Total expenditures	68,000	68,000	17,190	50,810
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,000)	(3,000)	60,818	63,818
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(55,000)	(55,000)	-
Total other financing sources and uses	-	(55,000)	(55,000)	-
NET CHANGE IN FUND BALANCE	(3,000)	(58,000)	5,818	63,818
FUND BALANCE, BEGINNING	30,276	30,276	30,276	-
FUND BALANCE, ENDING	$ 27,276	$(27,724)	$ 36,094	$ 63,818

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PARK DEVELOPMENT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Park development fees	$ -	$ -	$ 684	$ 684
Investment earnings	27	27	192	165
Total revenues	27	27	876	849
EXPENDITURES				
Capital outlay	-	300,000	207,883	92,117
Total expenditures	-	300,000	207,883	92,117
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	27	(299,973)	(207,007)	92,966
OTHER FINANCING SOURCES (USES)				
Transfers in	-	225,000	145,177	(79,823)
Total other financing sources (uses)	-	225,000	145,177	(79,823)
NET CHANGE IN FUND BALANCE	27	(74,973)	(61,830)	13,143
FUND BALANCE, BEGINNING	71,856	71,856	71,856	-
FUND BALANCE, ENDING	$ 71,883	$(3,117)	$ 10,026	$ 13,143

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CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

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CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENT FUNDS BY SOURCE

SEPTEMBER 30, 2016

GENERAL CAPITAL ASSETS		
Land	$	17,183,848
Land improvements		21,835,389
Building and improvements		14,569,016
Equipment		7,700,373
Other capital assets		196,594
Infrastructure		41,004,298
Construction in progress		4,003,876
Total general capital assets	$	106,493,394
INVESTMENT IN GENERAL CAPITAL ASSETS		
Investment in general capital assets acquired prior to October 1, 1990	$	655,037
General fund		9,470,976
Vehicle replacement fund		670,674
Special revenue funds		22,183,413
Capital project funds		26,335,587
Donations		47,177,707
Total investment in general capital assets	$	106,493,394

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY FUNCTION AND ACTIVITY

SEPTEMBER 30, 2016

Department	Land	Land Improvements	Building Improvements	Equipment	Other Assets	Infrastructure	Construction in Progress	Total
City Manager	$ 430,748	$ -	$ 265,915	$ 54,275	$ -	$ -	$ -	$ 750,938
Finance	26,652	-	412,718	399,242	141,029	-	-	979,641
Human Resources	8,812	-	113,185	-	13,388	-	-	135,385
City Secretary	41,479	-	511,673	-	18,447	-	-	571,599
Information services	-	-	-	109,674	-		-	109,674
Police	214,495	-	2,765,228	1,438,331	6,273	-	605,574	5,029,901
Fire	41,800	-	4,438,500	2,651,086	-	-	-	7,131,386
Building Operations	8,928	-	142,993	53,339	-	-	-	205,260
Streets and Drainage	11,571,914	1,007,402	885,794	998,686	-	40,878,440	-	55,342,236
Maintenance	65,609	-	775,361	382,793	-	-	-	1,223,763
Drainage Operations	-	29,200	451,842	483,978	-	125,858	49,197	1,140,075
Parks and Recreation	4,773,411	20,798,787	3,805,807	1,128,967	17,457	-	3,349,107	33,873,536
Total general capital assets	$ 17,183,848	$ 21,835,389	$ 14,569,016	$ 7,700,371	$ 196,594	$ 41,004,298	$ 4,003,878	$ 106,493,394

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS - CHANGES BY FUNCTION AND ACTIVITY

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Department	Balance September 30, 2015	Additions	Retirements / Transfers	Balance September 30, 2016
City manager	$ 750,938	$ -	$ -	$ 750,938
Finance	979,641	-	-	979,641
Human resources	135,385	-	-	135,385
City secretary	571,599	-	-	571,599
Information services	-	109,674	-	109,674
Police	4,388,578	641,323	-	5,029,901
Fire	7,017,539	113,847	-	7,131,386
Building operations	205,260	-	-	205,260
Streets and drainage	54,813,759	528,477	-	55,342,236
Maintenance	1,200,763	23,000	-	1,223,763
Drainage operations	1,107,328	32,747	-	1,140,075
Parks and recreation	31,808,526	2,065,010	-	33,873,536
Total capital assets	$ 102,979,316	$ 3,514,078	$ -	$ 106,493,394

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STATISTICAL SECTION

This part of the City of Highland Village, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

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Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	79
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.	87
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	91
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	96
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	99

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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TABLE 1

CITY OF HIGHLAND VILLAGE, TEXAS

NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities:										
Net investment in capital assets	$ 34,116,471	$ 34,619,733	$ 36,047,885	$ 37,529,766	$ 36,432,805	$ 36,579,491	$ 38,572,424	$ 39,860,121	$ 40,160,271	$ 40,067,568
Restricted:										
Debt service	272,324	237,114	268,467	236,654	262,165	259,678	77,964	100,918	62,822	59,725
Community development	-	-	-	1,114,888	1,156,675	1,073,212	592,076	533,841	968,043	647,532
Public safety	-	-	-	-	76,953	86,057	92,018	94,120	84,158	78,495
Utility drainage	-	-	-	-	433,566	283,352	171,166	161,368	165,456	240,467
Public broadcasting	-	-	-	-	-	10,738	6,291	17,420	30,276	36,094
Capital projects	267,715	355,191	345,422	386,322	-	-	-	-	-	-
Unrestricted	3,320,666	3,850,047	4,824,756	4,840,585	4,208,202	4,454,302	3,906,066	3,931,056	2,210,827	2,005,564
Total governmental activities net position	$ 37,977,176	$ 39,062,085	$ 41,486,530	$ 44,108,215	$ 42,570,366	$ 42,746,830	$ 43,418,005	$ 44,698,844	$ 43,681,853	$ 43,135,445
Business-type activities:										
Net investment in capital assets	$ 5,731,085	$ 6,111,699	$ 5,465,933	$ 5,664,677	$ 7,149,038	$ 6,393,534	$ 6,442,425	$ 6,325,308	$ 5,519,051	$ 6,738,242
Restricted:										
Capital projects	2,186,804	1,800,047	1,678,094	1,457,105	1,657,116	1,110,634	850,597	854,369	859,804	883,399
Unrestricted	941,128	1,780,651	2,951,956	2,130,193	2,830,923	3,079,711	3,594,106	3,142,581	2,830,311	2,030,254
Total business-type activities net position	$ 8,859,017	$ 9,692,397	$ 10,095,983	$ 9,251,975	$ 11,637,077	$ 10,583,879	$ 10,887,128	$ 10,322,258	$ 9,209,166	$ 9,651,895
Primary government:										
Net investment in capital assets	$ 39,847,556	$ 40,731,432	$ 41,513,818	$ 43,194,443	$ 43,581,843	$ 42,973,025	$ 45,014,849	$ 46,185,429	$ 45,679,332	$ 46,805,810
Restricted:										
Debt service	272,324	237,114	268,467	236,654	262,165	259,678	77,964	100,918	62,822	59,725
Community Development	-	-	-	1,114,888	1,156,675	1,073,212	592,076	533,841	968,043	647,532
Public safety	-	-	-	-	76,953	86,057	92,018	94,120	84,158	78,495
Utility drainage	-	-	-	-	433,566	283,352	171,166	161,368	165,456	240,467
Public broadcasting	-	-	-	-	-	10,738	6,291	17,420	30,276	36,094
Capital projects	2,454,519	2,155,238	2,023,516	1,843,427	1,657,116	1,110,634	850,597	854,369	859,804	883,399
Unrestricted	4,261,794	5,630,698	7,776,712	6,970,778	7,039,125	7,534,013	7,500,172	7,073,637	5,041,138	4,035,818
Total primary government net position	$ 46,836,193	$ 48,754,482	$ 51,582,513	$ 53,360,190	$ 54,207,443	$ 53,330,709	$ 54,305,133	$ 55,021,102	$ 52,891,029	$ 52,787,340

Note:

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS

	Fiscal Year		
	2007	2008	2009
EXPENSES			
Governmental activities:			
General government	$ 3,274,106	$ 2,920,042	$ 3,087,596
Public safety	3,982,350	4,817,750	5,454,270
Building operations	314,570	326,715	342,084
Community development	611,356	503,579	506,031
Community services	-	-	-
Streets and drainage	1,716,177	1,998,304	2,395,655
Parks and recreation	1,660,194	2,061,027	2,355,359
Interest on long-term debt	617,809	681,888	932,556
Total governmental activities expenses	12,176,562	13,309,305	15,073,551
Business-type activities:			
Water and wastewater	6,433,256	6,823,202	7,256,548
Total business-type activities expenses	6,433,256	6,823,202	7,256,548
Total primary government program expenses	$ 18,609,818	$ 20,132,507	$ 22,330,099
PROGRAM REVENUES			
Governmental activities:			
Charges for services:			
General government	$ 188,435	$ 135,323	$ 160,388
Public safety	108,830	273,295	288,262
Building operations	-	-	-
Community services	-	-	-
Community development	928,357	451,730	326,529
Streets and drainage	266,221	393,491	396,519
Parks and recreation	303,536	418,924	365,163
Operating grants and contributions	319,162	190,771	383,646
Capital grants and contributions	-	-	2,078,055
Total governmental activities program revenues	2,114,541	1,863,534	3,998,562
Business-type activities:			
Charges for services:			
Water and wastewater	5,462,433	7,551,247	7,643,327
Capital grants and contributions	884,296	200,628	196,340
Total business-type activities program revenues	6,346,729	7,751,875	7,839,667
Total primary government program revenues	$ 8,461,270	$ 9,615,409	$ 11,838,229

TABLE 2

Fiscal Year						
2010	2011	2012	2013	2014	2015	2016
$ 3,309,453	$ 4,061,944	$ 3,866,847	$ 4,012,367	$ 4,089,989	$ 4,330,662	$ 4,392,360
5,716,458	6,057,589	6,172,127	6,220,099	6,361,961	6,848,781	7,782,368
347,208	311,579	366,097	-	-	-	-
510,371	-	-	-	-	-	-
-	-	-	386,807	389,300	415,562	446,470
2,252,522	2,323,968	2,436,763	2,554,759	3,157,921	2,546,268	2,826,584
2,548,972	2,869,595	3,012,260	3,059,741	3,199,066	3,199,678	3,534,661
974,478	844,711	786,492	766,603	887,123	836,051	699,315
15,659,462	16,469,386	16,640,586	17,000,376	18,085,360	18,177,002	19,681,758
8,086,711	7,956,791	9,674,321	7,782,455	8,530,306	8,525,158	8,500,825
8,086,711	7,956,791	9,674,321	7,782,455	8,530,306	8,525,158	8,500,825
$ 23,746,173	$ 24,426,177	$ 26,314,907	$ 24,782,831	$ 26,615,666	$ 26,702,160	$ 28,182,583
$ 243,938	$ 247,160	$ 270,446	$ 346,896	$ 349,821	$ 331,895	$ 283,062
200,990	228,724	244,070	234,931	291,234	285,879	429,534
-	328,780	287,245	-	-	-	-
-	-	-	326,450	424,368	388,580	524,273
293,338	-	-	-	-	-	-
397,886	401,583	404,726	399,727	469,914	474,492	517,450
393,737	452,633	502,356	408,598	474,319	474,514	654,906
227,209	148,982	223,526	79,277	44,048	32,377	44,839
-	72,385	202,669	1,541,554	1,731,955	1,353,726	221,974
1,757,098	1,880,247	2,135,038	3,337,433	3,785,659	3,341,463	2,676,038
7,348,133	9,062,987	8,751,077	8,486,005	8,101,643	7,888,614	8,011,036
106,473	193,982	145,701	79,560	148,467	104,191	911,608
7,454,606	9,256,969	8,896,778	8,565,565	8,250,110	7,992,805	8,922,644
$ 9,211,704	$ 11,137,216	$ 11,031,816	$ 11,902,998	$ 12,035,769	$ 11,334,268	$ 11,598,682

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET POSITION
(Continued)
LAST TEN FISCAL YEARS

	Fiscal Year		
	2007	2008	2009
NET (EXPENSE) REVENUES			
Governmental activities	$(10,062,021)	$(11,445,771)	$(11,074,989)
Business-type activities	(86,527)	928,673	583,119
Total primary government net expense	(10,148,548)	(10,517,098)	(10,491,870)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS			
Governmental activities:			
Taxes			
Property	7,775,701	8,454,932	9,410,561
Franchise	1,229,270	1,418,826	1,384,660
Sales	940,009	1,859,946	1,885,786
Unrestricted investment earnings	571,390	345,422	340,518
Gain on sale of assets	-	-	39,610
Miscellaneous	186,586	253,515	198,299
Transfers	120,000	240,000	240,000
Total governmental activities	10,822,956	12,572,641	13,499,434
Business-type activities:			
Unrestricted investment earnings	329,371	144,707	60,467
Transfers	(120,000)	(240,000)	(240,000)
Total business-type activities	209,371	(95,293)	(179,533)
Total primary government	11,032,327	12,477,348	13,319,901
CHANGE IN NET POSITION			
Governmental activities	760,935	1,126,870	2,424,445
Business-type activities	122,844	833,380	403,586
Total primary government	$ 883,779	$ 1,960,250	$ 2,828,031

TABLE 2

Fiscal Year						
2010	2011	2012	2013	2014	2015	2016
$(13,902,364)	$(14,589,139)	$(14,505,548)	$(13,700,224)	$(14,299,701)	$(14,835,539)	$(17,005,720)
(632,105)	1,300,178	(777,543)	766,821	(280,196)	(532,353)	421,819
(14,534,469)	(13,288,961)	(15,283,091)	(12,933,403)	(14,579,897)	(15,367,892)	(16,583,901)
9,487,593	9,323,925	9,397,945	9,336,875	9,726,985	10,220,940	10,876,727
1,417,221	1,412,034	1,582,402	1,640,398	1,720,762	1,722,995	1,658,700
2,781,423	3,004,273	3,252,413	3,304,660	3,613,216	3,690,787	3,786,900
74,569	45,144	32,737	38,059	33,308	36,026	54,786
-	33,260	27,485	-	-	-	-
210,188	281,566	89,030	199,282	186,269	122,009	83,908
276,500	(1,048,912)	300,000	300,000	300,000	300,000	(1,709)
14,247,494	13,051,290	14,682,012	14,819,274	15,580,540	16,092,757	16,459,312
64,597	36,012	24,345	12,142	15,326	17,104	19,201
(276,500)	1,048,912	(300,000)	(300,000)	(300,000)	(300,000)	1,709
(211,903)	1,084,924	(275,655)	(287,858)	(284,674)	(282,896)	20,910
14,035,591	14,136,214	14,406,357	14,531,416	15,295,866	15,809,861	16,480,222
345,130	(1,537,849)	176,464	1,119,050	1,280,839	1,257,218	(546,408)
(844,008)	2,385,102	(1,053,198)	478,963	(564,870)	(815,249)	442,729
$(498,878)	$ 847,253	$(876,734)	$ 1,598,013	$ 715,969	$ 441,969	$(103,679)

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CITY OF HIGHLAND VILLAGE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Nonspendable - prepaid items	$ -	$ -	$ -	$ -	$ 1,073	$ 772	$ 7,319	$ 1,176	$ 449	$ 251,748
Assigned	-	-	-	-	-	-	151,582	185,104	865,468	1,270,558
Unassigned	-	-	-	-	4,295,895	4,539,271	4,442,650	4,357,319	4,207,414	3,933,919
Reserved	60,967	97,928	283,297	188,860	-	-	-	-	-	-
Unreserved	3,184,302	3,693,582	3,633,978	4,001,874	-	-	-	-	-	-
Total general fund	$ 3,245,269	$ 3,791,510	$ 3,917,275	$ 4,190,734	$ 4,296,968	$ 4,540,043	$ 4,601,551	$ 4,543,599	$ 5,073,331	$ 5,456,225
All other governmental funds										
Restricted, for the purpose of:										
Debt service	$ -	$ -	$ -	$ -	$ 349,270	$ 354,029	$ 160,157	$ 168,040	$ 154,343	$ 141,058
Community development	-	-	-	-	2,539,696	2,350,393	1,820,252	8,056,884	2,349,085	751,846
Public safety	-	-	-	-	76,953	86,057	92,018	94,120	84,158	78,495
Utility drainage	-	-	-	-	433,566	283,352	171,166	161,368	165,456	240,467
Capital projects	-	-	-	-	371,455	3,104,486	785,227	641,828	392,061	438,834
Public Broadcasting	-	-	-	-	-	10,738	6,291	17,420	30,276	36,094
Committed - parks	-	-	-	-	236,402	167,766	86,178	106,705	120,422	262,224
Reserved	2,686,284	9,679,618	12,534,051	1,865,015	-					
Unreserved, reported in:										
Special revenue funds	466,157	474,263	517,724	3,180,113	-	-	-	-	-	-
Capital projects funds	122,551	171,976	173,291	-	-	-	-	-	-	-
Total all other governmental funds	$ 3,274,992	$ 10,325,857	$ 13,225,066	$ 5,045,128	$ 4,007,342	$ 6,356,821	$ 3,121,289	$ 9,246,365	$ 3,295,801	$ 1,949,018

Note:

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

TABLE 4

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
REVENUES										
Taxes	$ 9,930,351	$ 11,759,504	$ 12,665,467	$ 13,698,528	$ 13,747,894	$ 14,234,807	$ 14,271,269	$ 15,066,221	$ 15,625,989	$ 16,308,934
Fines and forfeitures	210,170	128,235	148,806	243,880	216,558	123,635	170,442	158,183	124,932	99,082
Licenses, permits, fees	1,538,951	1,303,368	1,127,547	1,132,330	1,256,464	1,372,677	1,414,988	1,600,992	1,565,929	1,916,752
Intergovernmental	319,162	183,398	358,837	224,909	147,182	353,433	1,620,831	1,651,123	1,435,235	310,519
Charges for services	104,736	204,536	260,508	152,512	220,595	201,896	206,460	252,168	253,851	391,627
Investment earnings	571,390	345,422	317,234	97,853	45,144	16,795	54,003	33,308	36,026	54,786
Miscellaneous	227,942	259,515	223,108	212,488	318,178	117,514	199,282	186,269	122,009	114,448
Total revenues	12,902,702	14,183,978	15,101,507	15,762,500	15,952,015	16,420,757	17,937,275	18,948,264	19,163,971	19,196,148
EXPENDITURES										
General government	3,172,948	2,795,110	2,951,409	3,184,450	3,877,964	3,676,079	3,821,447	3,862,314	4,137,117	4,135,129
Public safety	3,599,342	4,361,246	4,789,474	5,049,759	5,368,601	5,570,980	5,563,505	5,726,860	6,212,042	6,952,405
Building operations	267,648	320,616	336,072	341,466	306,349	352,156	-	-	-	-
Community development	590,233	494,528	492,933	517,773	-	-	-	-	-	-
Community service	-	-	-	-	-	-	373,690	378,626	401,541	430,163
Streets and drainage	758,953	952,526	1,290,052	1,081,337	1,185,257	1,208,138	1,359,195	1,936,985	1,352,770	1,589,676
Parks and recreation	1,380,545	1,695,348	1,962,700	2,039,292	2,283,597	2,313,973	2,354,526	2,415,834	2,378,196	2,626,904
Debt service:										
Principal	1,113,243	1,419,371	1,401,407	1,781,323	1,696,671	1,765,000	1,735,000	1,815,000	1,955,000	2,176,616
Interest and other	632,549	793,504	1,049,888	980,673	901,321	824,359	794,461	888,597	863,286	716,472
Capital outlay	4,457,417	2,153,389	1,946,051	5,345,918	1,594,158	1,336,567	5,409,475	3,223,116	8,218,357	3,868,574
Total expenditures	15,972,878	14,985,638	16,219,986	20,321,991	17,213,918	17,047,252	21,411,299	20,247,332	25,518,309	22,495,939

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
LAST TEN FISCAL YEARS

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	$(3,070,176)	$(801,660)	$(1,118,479)	$(4,559,491)	$(1,261,903)	$(626,495)	$(3,474,024)	$(1,299,068)	$(6,354,338)	$(3,299,791)
OTHER FINANCING SOURCES (USES)										
Issuance of long-term debt	300,000	8,000,000	3,830,000	-	4,070,000	2,795,000	-	7,020,000	-	9,235,000
Proceeds from capital leases	-	-	-	-	-	-	-	-	633,506	250,780
Premium on debt issuance	-	158,766	33,843	-	200,910	124,049	-	46,192	-	-
Proceeds from sale capital assets	-	-	39,610	-	-	-	-	-	-	-
Payments to escrow account	-	-	-	-	(4,240,559)	-	-	-	-	(7,619,878)
Transfers in	730,108	409,676	730,493	1,612,313	1,314,389	1,198,962	1,268,715	1,235,142	1,283,905	2,290,168
Transfers out	(610,108)	(169,676)	(490,493)	(1,335,813)	(1,014,389)	(898,962)	(968,715)	(935,142)	(983,905)	(1,820,168)
Total other financing sources (uses)	420,000	8,398,766	4,143,453	276,500	330,351	3,219,049	300,000	7,366,192	933,506	2,335,902
NET CHANGE IN FUND BALANCES	$(2,650,176)	$ 7,597,106	$ 3,024,974	$(4,282,991)	$(931,552)	$ 2,592,554	$(3,174,024)	$ 6,067,124	$(5,420,832)	$(963,889)
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	15.2%	17.2%	17.2%	18.4%	16.6%	16.5%	15.8%	15.9%	16.6%	15.6%

CITY OF HIGHLAND VILLAGE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Real Property: Residential Property	Real Property: Commercial Property	Personal Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2007	$ 1,230,372,823	$ 124,967,535	$ 25,619,835	$ 52,545,296	$ 1,328,414,897	0.5696	$ 7,567,050
2008	1,307,427,681	195,882,733	31,996,149	56,731,754	1,478,574,809	0.5696	8,422,406
2009	1,367,695,704	254,564,950	63,406,709	68,338,327	1,617,329,036	0.5696	9,212,791
2010	1,392,011,109	272,382,720	63,385,404	69,657,350	1,658,121,883	0.5696	9,445,160
2011	1,401,737,552	225,092,872	53,733,486	75,046,468	1,605,517,442	0.5696	9,145,509
2012	1,416,483,461	252,976,165	59,119,095	80,495,062	1,648,083,659	0.5696	9,387,979
2013	1,411,883,987	254,483,493	58,492,381	89,119,649	1,635,740,212	0.5696	9,317,667
2014	1,461,181,835	263,597,977	60,771,959	90,906,933	1,694,644,838	0.5696	9,653,205
2015	1,564,231,925	278,425,113	60,243,887	105,428,441	1,797,472,484	0.5696	10,238,943
2016	1,649,565,971	313,545,655	64,490,237	106,266,234	1,921,335,629	0.5696	10,944,504

Source: Denton County Appraisal District

Note: Estimated actual taxable value is calculated by dividing taxable assessed value by those percentages. Tax rates are per $100 of assessed value.

Residential: single family, vacant lots, acreage, and farm/ranch and personal.

Commercial: real commercial, personal industrial and utilities.

CITY OF HIGHLAND VILLAGE, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES

LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates	
	Operating/ General Rate	Debt Service Rate	Total Direct Rate	Lewisville Independent School District	Denton County
2007	$ 0.4488	$ 0.1208	$ 0.5696	$ 1.37	$ 0.24
2008	0.4410	0.1287	0.5696	1.37	0.24
2009	0.4543	0.1153	0.5696	1.38	0.24
2010	0.4541	0.1155	0.5696	1.41	0.25
2011	0.4550	0.1146	0.5696	1.43	0.27
2012	0.4586	0.1111	0.5696	1.43	0.28
2013	0.4698	0.0998	0.5696	1.45	0.28
2014	0.4613	0.1083	0.5696	1.48	0.28
2015	0.4700	0.0996	0.5696	1.48	0.27
2016	0.4782	0.0915	0.5696	1.48	0.26

Source: Denton County Tax Collector's Office
Lewisville Independent School District Budget Office

Note: A typical property tax bill would consist of the City, School District and County taxes.

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

	2016		2007	
Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value*	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value**
MP Shops at Highland Village, LLC	$ 95,000,000	4.944%	$ -	- %
DDR Highland Village, LP	37,489,690	1.951%	-	- %
Wal-Mart Stores Texas, LP	16,572,000	0.863%	-	- %
HHSG, LLC	13,713,102	0.714%	-	- %
Centro NP Holdings 12 SPE, LLC	10,842,725	0.564%	-	- %
Wal-Mart Stores Texas, LP	8,588,745	0.447%	-	- %
Barnett Healthcare Prop, LLC	8,382,420	0.436%	-	- %
ADV Highland Village Property Owner, LLC	7,627,957	0.397%	-	- %
Whole Foods Market	5,115,010	0.266%	-	- %
HSM Highland Point S/C. LTD	4,924,448	0.256%	-	- %
Opus West, LP	-	- %	12,846,688	0.967%
Barnett Healthcare Prop, LLC	-	- %	6,554,385	0.493%
Shops at Highland Village Dev., LTD	-	- %	5,967,083	0.449%
Wal-Mart Stores Texas, LP	-	- %	5,658,911	0.426%
CoServ Electric Co-Op	-	- %	4,536,180	0.341%
Celebrations Management, Inc.	-	- %	4,458,228	0.336%
Tabani Highland, LP P/S	-	- %	4,243,480	0.319%
CenterAmerica Prop. Trust, LP	-	- %	4,143,101	0.312%
Verizon Southwest	-	- %	3,148,350	0.237%
Realty Capital Village Creek, LTD	-	- %	3,021,730	0.227%
Total	$ 208,256,097	10.839%	$ 54,578,136	4.109%

Source: Denton county Appraisal District

Notes:

* Total taxable value including real and personal property for tax year 2015 (fiscal year 2016) is $1,921,335,629

** Total taxable value including real and personal property for tax year 2006 (fiscal year 2007) is $1,328,414,897

TABLE 8

CITY OF HIGHLAND VILLAGE, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2007	$ 7,633,449	$ 7,585,059	99.37%	$ 48,040	$ 7,633,099	100.00%
2008	8,407,508	8,377,388	99.64%	28,788	8,406,176	99.98%
2009	9,359,745	9,315,842	99.53%	39,936	9,355,777	99.96%
2010	9,449,566	9,409,516	99.58%	38,189	9,447,705	99.98%
2011	9,331,792	9,311,956	99.79%	17,450	9,329,406	99.97%
2012	9,378,644	9,362,729	99.83%	13,293	9,376,022	99.97%
2013	9,315,832	9,293,267	99.76%	14,415	9,307,682	99.91%
2014	9,697,513	9,672,999	99.75%	6,562	9,679,561	99.81%
2015	10,201,729	10,176,515	99.75%	6,398.45	10,182,914	99.82%
2016	10,853,080	10,824,025	99.73%	-	10,824,025	99.73%

Sources: Denton County appraisal District and Denton County Tax office.

Notes: Tax levy includes adjustments and supplements made to the property roll during the fiscal year.
Delinquent collections do not include penalty and interest.

CITY OF HIGHLAND VILLAGE, TEXAS

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

	Governmental Activities				Business-type Activities					
Fiscal Year	General Obligation Bonds	Combination Tax and Revenue Certificates of Obligation	Capital Lease Obligations	Tax Note	General Obligation Bonds	Combination Tax and Revenue Certificates of Obligation	Capital Lease Obligations	Total Primary Government	Percentage of Personal Income*	Per Capita*
2007	$ 13,681,183	$ 1,255,000	$ 328,880	$ 300,000	$ 2,305,334	$ 6,759,410	$ -	$ 24,629,807	4.70%	$ 1,610
2008	17,752,581	4,316,276	213,066	-	1,808,962	7,913,635	-	32,004,520	5.38%	2,032
2009	16,676,096	7,922,613	108,442	-	1,574,794	11,868,586	128,756	38,279,287	6.14%	2,415
2010	15,448,553	7,428,791	-	-	1,330,983	11,288,976	87,448	35,584,751	5.59%	2,212
2011	14,238,460	6,879,970	-	-	1,001,994	10,644,363	44,550	32,809,337	5.48%	2,144
2012	13,024,524	9,237,414	-	-	5,339,572	5,262,868	-	32,864,378	4.97%	2,106
2013	11,865,589	8,644,049	-	-	4,771,815	5,030,763	-	30,312,216	4.47%	1,979
2014	10,880,294	15,080,339	-	-	4,373,046	9,345,362	-	39,679,041	5.31%	2,572
2015	9,768,359	14,319,664	503,506	-	3,726,715	9,097,385	-	37,415,629	4.77%	2,351
2016	9,547,809	12,683,991	632,670	1,535,000	3,070,385	8,839,408	-	36,309,263	4.50%	2,290

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

TABLE 10

CITY OF HIGHLAND VILLAGE, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding					Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificate of Obligation Bonds	General Bonded Debt Outstanding	Less Debt Service Resources Available	Net General Bonded Debt Outstanding		
2007	$ 15,986,517	$ 8,014,410	$ 24,000,927	$ 320,939	$ 23,679,988	1.78%	$ 1,548
2008	19,561,543	12,229,911	31,791,454	371,198	31,420,256	2.13%	1,995
2009	18,250,890	19,791,199	38,042,089	365,943	37,676,146	2.33%	2,377
2010	16,779,536	18,717,767	35,497,303	341,419	35,155,884	2.12%	2,185
2011	15,240,454	17,524,333	32,764,787	349,270	32,415,517	2.02%	2,118
2012	18,364,096	14,500,282	32,864,378	354,029	32,510,349	1.97%	2,084
2013	16,637,404	13,674,812	30,312,216	160,157	30,152,059	1.84%	1,969
2014	15,253,340	24,425,701	39,679,041	168,040	39,511,001	2.33%	2,561
2015	13,495,074	23,417,049	36,912,123	154,343	36,757,780	2.04%	2,310
2016	12,618,194	21,523,399	34,141,593	59,725	34,081,868	1.77%	2,149

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See Table 5 for property value data.

See Table 14 for population data.

CITY OF HIGHLAND VILLAGE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2016

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
County of Denton	$ 647,814,636	2.714%	$ 17,579,188
Lewisville Independent School District	1,240,974,968	7.038%	87,342,260
Subtotal overlapping debt			104,921,448
City of Highland Village (direct debt)	24,399,470	100.0%	24,399,470
Total direct and overlapping debt			$ 129,320,918

Sources:

Assessed value data used to estimate applicable percentages provided by the Denton County Appraisal District. Debt outstanding data provided by each governmental unit.

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Highland Village, Texas. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt of each overlapping government.

TABLE 12

CITY OF HIGHLAND VILLAGE, TEXAS

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

Legal Debt Margin Calculation for Fiscal Year 2016	
Assessed value	$ 1,921,335,629
Debt limit ($2.50 per $100 of assessed value)	48,033,391
Debt applicable to limit:	
Tax supported debt	2,650,034
Less: Amount set aside for repayment of general obligation debt	(154,343)
Total net debt applicable to limit	2,495,691
Legal debt margin	$ 45,537,700

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit	$ 33,210,372	$ 36,964,437	$ 40,433,227	$ 41,453,047	$ 40,137,937	$ 41,202,091	$ 40,893,505	$ 42,366,121	$ 44,936,812	$ 48,033,391
Total net debt applicable to limit	1,234,670	1,517,857	1,909,108	2,308,177	2,231,680	2,262,042	2,369,304	2,478,463	2,842,629	2,495,691
Legal debt margin	$ 31,975,702	$ 35,446,580	$ 38,524,119	$ 39,144,870	$ 37,906,257	$ 38,940,049	$ 38,524,201	$ 39,887,658	$ 42,094,183	$ 45,537,700
Total net debt applicable to the limit as a percentage of debt limit.	3.72%	4.11%	4.72%	5.57%	5.56%	5.49%	5.79%	5.85%	6.33%	5.20%

Note:

According to The State of Texas Constitution, Article 11, Section 5, provides in part that, "…no tax for any purpose shall ever be lawful for any one year, which shall exceed 2.5% of the taxable property of such city." As a home rule city, the City of Highland Village is not limited in the amount of

CITY OF HIGHLAND VILLAGE, TEXAS

PLEDGED REVENUE COVERAGE

LAST TEN FISCAL YEARS

	Water and Wastewater System Revenue Bonds						
Fiscal Year	Total Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2007	$ 5,791,804	$ 5,154,652	$ 637,152	$ 1,020,159	$ 459,975	$ 1,480,134	0.43
2008	7,695,954	5,658,275	2,037,679	930,248	416,634	1,346,882	1.51
2009	7,703,794	5,901,886	1,801,908	708,043	450,115	1,158,158	1.56
2010	7,431,980	6,751,790	680,190	877,687	599,289	1,476,976	0.46
2011	9,098,999	6,725,115	2,373,884	958,329	499,271	1,457,600	1.63
2012	8,775,422	8,517,784	257,638	995,000	348,478	1,343,478	0.19
2013	8,498,147	6,642,770	1,855,377	800,000	347,277	1,147,277	1.62
2014	8,116,969	7,284,308	832,661	840,000	398,349	1,238,349	0.67
2015	7,905,718	7,266,680	639,038	860,000	424,163	1,284,163	0.50
2016	8,030,237	7,271,123	759,114	880,000	402,788	1,282,788	0.59

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Gross revenues do not include capital contributions. Operating expenses do not include interest, depreciation, or amortization

CITY OF HIGHLAND VILLAGE, TEXAS

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

Calendar Year	Population	Personal Income	Per Capita Personal Income	Unemployment Rate
2007	15,300	$ 523,887,300	$ 34,241	4.2%
2008	15,750	595,035,000	37,780	5.0%
2009	15,850	623,158,600	39,316	7.5%
2010	16,090	636,713,480	39,572	7.1%
2011	15,305 *	598,930,565	39,133	6.9%
2012	15,602	661,072,342	42,371	5.6%
2013	15,315	677,964,420	44,268	5.4%
2014	15,429	747,797,343	48,467	4.2%
2015	15,915	784,959,630	49,322	3.4%
2016	15,859	807,096,228	50,892	3.6%

Source: U. S. Census Bureau
Texas Workforce Commission
Bureau of Economic Analysis

Note: Population estimates are based on residential sewer connections.
*2011 population estimates are based on 2010 census

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT AND NINE YEARS AGO

	2016	2007
Employer	Employees	Employees
City of Highland Village	100 - 499	100 - 499
ExcelWipe, LLC	100 - 499	
Lewisville Independent School District	100 - 499	100 - 499
Walmart Supercenter	100 - 499	-
Whole Foods Stores	100 - 499	
AMC Highland Village 12	50 - 99	-
Excite Gymnastics & Cheer	50 - 99	
Home Instead Senior Care	50 - 99	-
Ihop Restaurant	50 - 99	-
Kroger	50 - 99	-
Patrizio Restaurant	50 - 99	-
Re/Max Cross County	50 - 99	
Rosa's Café & Tortilla Factory	50 - 99	-
TJ Maxx	50 - 99	-
Lifes a Beach, Inc.	-	100-499
Excite! Gymnastics & Cheer LLC	-	50 - 99
Salerno Pizza Co	-	50 - 99
Pizza Café Inc.	-	50 - 99
Kid Country Inc	-	20 - 49
New Hemisphere Investments, Inc.	-	20 - 49
Prime Kids LLC	-	20 - 49
Marla R Conger MD PA	-	20 - 49
John R Ross Company Inc	-	20 - 49

Source: Texas Workforce Commission

TABLE 16

CITY OF HIGHLAND VILLAGE, TEXAS

FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government										
City manager	2	2	2	2	2	2	2	2	2	2
Finance	10	10	10	11	12	12	13	13	11	11
Human resources	3	3	3	3	3	3	3	3	3	3
City secretary	2	2	2	2	2	2	2	2	2	2
Information Services	-	-	-	-	-	-	-	4	4	6
City Attorney	3	3	3	3	2	1	-	-	-	-
Maintenance	4	4	4	4	4	4	4	4	4	4
Public safety										
Police	35	37	37	37	38	38	39	41	44	46
Fire	11	15	15	18	18	18	18	18	19	22
Community services	5	4	4	4	4	5	5	5	5	5
Streets and drainage	16	16	16	17	16	16	15	15	15	14
Parks and recreation	15	15	15	15	16	16	17	17	17	17
Water and wastewater	15	17	17	17	17	18	18	18	18	19
Highland Village Community Development Corporation	1	1	1	2	2	2	2	2	3	3
Total	122	129	129	135	136	137	138	144	147	154

Source: Various City departments

Notes: A fulltime employee is scheduled to work 40 hours per week (including vacation and sick leave).

CITY OF HIGHLAND VILLAGE, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2007	2008	2009	2010
General government				
Open records requests processed	132	136	113	142
Court cases filed	2,367	1,988	2,369	3,182
Employee turnover (%)	8.00%	10.00%	7.60%	9.80%
Emp safety lost time injuries	2	1	-	1
Technical support tickets closed				
Community Service				
Permits issued	1,658	1,316	1,158	1,083
Inspections performed	6,639	4,039	2,468	3,398
Police				
Reported offenses	441	482	375	324
Arrests	299	280	298	307
Service	6,972	7,918	7,761	7,329
Close patrols	23,919	9,475	9,119	5,986
Traffic citations issued	1,785	1,592	2,342	3,670
Traffic warnings issued	2,393	2,685	3,192	3,857
Motor vehicle accidents	211	248	258	251
Animal impounds	*	*	*	360
Animal care calls	174	3,104	3,130	3,826
Animal registrations	1,049	907	844	1,148
Fire				
EMS calls	513	657	691	615
Fires calls	437	395	456	400
Streets and Drainage				
Drainage materials (ft.)	6,374	5,782	5,924	6,364
Asphalt (tons)	674	656	719	220
Concrete(yards)	152	187	59	102
Cold patch (lbs)	2,875	2,200	3,810	2,762
Crack seal (lbs)	4,110	9,190	20,853	6,295
Paint (gal)	43	176	175	140
Sod replacement (yards)	1,473	-	-	-
Saw cuttings	3,569	6,535	3,268	1,069
Spoils (yards)	*	*	1,979	1,639
Sign Repairs (hours)	*	*	139	532
Work orders completed (Maintenance)	2,130	2,286	2,028	713
Total fuel consumption	58,908	65,119	67,225	**47,984
Parks and recreation				
Acres of turf mowed	4,867	6,067	6,154	6,154
Parks turf maintenance				
Park maintenance (man hours)	*	*	*	*
Bags of trash disposed (55 gal)	4,383	5,734	5,800	5,800
Trash removal (man hours)	*	*	*	*
Recreation/Special Events Participation	12,788	16,235	24,940	25,041
Water				
New connections	105	54	18	28
Field operations work orders completed	5,411	5,492	8,001	7,305
Peak daily consumption	6,375,848	7,393,200	7,427,600	7,235,926
Maximum daily capacity-water production	7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD
Number of gallons pumped	858,936,000	1,049,519,800	1,050,873,400	984,344,630
Number of gallons sold	827,602,885	977,399,700	952,105,000	888,988,200
Wastewater				
Wastewater work orders completed	967	1,209	1,399	1,396
Wastewater gallons pumped	538,198,300	427,173,000	413,215,000	577,082,000

Source: Various City departments

* Not available

**During Fiscal Year 2009-2010 the City's Fuel Station was not in use due to Facility Construction, therefore Total Fuel Consumption does not include 4 months

TABLE 17

2011	2012	2013	2014	2015	2016
149	184	220	240	224	281
2,704	1,220	2,284	1,962	1,524	1,782
14.00%	16.00%	11.70%	10.70%	7.50%	11.70%
2	-	1	2	-	-
				1,046	807
1,250	1,386	1,424	1,466	1,343	1,336
2,911	2,928	2,923	2,889	2,946	2,633
340	273	227	262	306	452
321	232	255	271	281	267
7,022	6,324	5,884	4,928	5,164	6,617
4,331	10,249	7,174	12,492	8,259	6,957
2,480	1,305	2,119	2,221	1,716	1,352
4,626	2,010	2,622	3,008	2,841	2,337
197	189	194	204	162	239
216	221	*	230	172	243
2,105	4,656	*	1,554	687	1,413
580	873	*	907	690	865
566	525	568	591	601	602
504	549	350	457	493	526
9,268	34,021				
402	1,148	316	157	426	716
937	4,216	406	197	270	204
3,000	53	600	900	3,575	4,800
21,558	-	-	-	125	200
301	89	140	156	20	30
-	-	329	250	25	15
10,578	16,568	11,996	28,334	17,832	14,952
577	3,605	3,402	404	961	828
700	159	196	98	48	107
534	264	1,860	1,903	1,837	1,818
65,789	58,692	59,415	60,448	55,897	59,198
4,686	*	11,448	4,931	*	*
					6,525
*	5,126	6,525	*	24,012	23,899
4,898	*	7,200	6,160	8,260	*
*	1,253	2,816	*	2,816	2,816
30,342	19,798	20,894	22,608	20,288	19,051
33	59	15	16	17	37
5,379	14,822	16,687	9,815	10,675	10,815
7,220,700	8,099,400	6,780,300	6,929,900	7,500,000	7,500,000
6.46MGD	6.93MGD	7.20MGD	7.20MGD	7.20MGD	7.20MGD
1,236,291,896	1,094,066,900	1,162,636,600	1,044,346,300	1,056,000,000	991,177,900
1,188,799,975	1,070,560,100	1,152,288,922	934,653,200	1,008,000,000	931,105,700
1,148	1,620	1,123	4,156	4,867	4,740
462,414,000	446,910,000	374,111,518	381,156,000	604,500,000	572,924,000

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government										
City area (in miles)	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire										
Stations	1	1	1	1	1	1	1	1	1	1
Streets and Drainage										
Streets (miles)	153.9	153.9	159.0	90.0	200.0	200.0	200.0	200.0	200.0	200.0
Traffic signals	1	1	1	1	3	3	3	3	3	3
Parks and recreation										
Acres of parks	318	338	366	366	335	318	318	318	318	318
Trail system (linear miles)	2.7	2.7	6.7	6.7	6.7	7.1	10.0	11.7	11.7	12.7
Water										
Number of meters in service	5,226	5,276	5,294	5,322	5,357	5,416	5,422	5,439	5,456	5,483
Water mains (in miles)	85	93	94	95	100	100	100	98	99	100
Fire hydrants	729	729	739	741	754	766	770	780	780	811
Wastewater										
Storm sewers (miles)	25	25	25	38	23	23	24	24	25	25
Sanitary sewers (miles)	83	90	91	92	98	98	98	98	98	99
Sewer connections	5,054	5,085	5,103	5,121	5,119	5,212	5,218	5,235	5,253	5,276

Source: Various City departments

COMPLIANCE

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor
and City Council
City of Highland Village, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Highland Village, Texas' basic financial statements, and have issued our report thereon dated March 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Highland Village, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Highland Village, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Highland Village, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Highland Village, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 27, 2017